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The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, NOVEMBER 3, 1980 VOLUME XVII, NUMBER 44

Interest Rates 2

Just when you thought it was safe to anticipate lower interest rates, a combination of rapid money supply growth, strong demand for funds from both the private and the public sectors and a rebound in inflation expectations has induced a sharp upward reversal of both short- and long-term interest rates. What is more, this spiral does not yet seem to have run its course with rates seemingly headed even higher. What went wrong?

First, effective control of money supply growth continues to elude the Federal Reserve. During the past 13 weeks, for example, M-1A has advanced at a seasonally-adjusted annual rate of 12.8 per cent while M-1B has expanded at a 15.5 per cent annual rate. Although the year-to-date expansion of both M-1A and M-1B is at or near their respective maximum growth target boundaries, a marked deceleration in the rate of monetary growth is now required if these targets are to be met.

Second, business loan demand remains strong despite the rise in business lending rates. Commercial and industrial loans at large weekly reporting banks expanded at a 20 per cent seasonally-adjusted annual rate during the past three months. Not only has the growth of business loans been rapid in recent months compared with second-quarter loan activity (when C & I loans outstanding declined), but it is also strong in relation to year-earlier growth rates. During the comparable 13 week period in 1979—a year of massive short-term debt acquisition by U.S. business—commercial and industrial loans expanded at a 16 per cent annual rate, slightly lower than recent experience.

Additionally, economic activity continues to rebound. Among the more recent indicators confirming the slight strengthening of economic activity: "Real" GNP rose in the third quarter at a one per cent annual rate, industrial production has begun to revive and new housing starts continued to expand. But unfortunately, inflation expectations remain at unacceptably high levels—fueled in large part by Washington's continuous inability to balance its books. This week the U.S. posted its 11th consecutive budget deficit—and the second largest ever. Prospects for the current fiscal year look equally as bleak.

Put simply, these developments are all signs of expansion rather than recession and, if unchecked, may well result in an even tighter monetary policy stance. If so, interest rates will move still higher before declining later this year and in early 1981. By that time, the rapid ascent of interest rates, in general, and mortgage rates, in particular, will have become self-limiting, dampening whatever recovery might be underway in retail sales, automobiles and housing. This, in turn, should ensure a decelerating rate of inflation and slower money supply growth—thus a return to declining interest rates.

More Bad News On Productivity . . .

Although private sector productivity improved in the third quarter for the first time since the fourth quarter of 1978, there is little reason to rejoice. The 1.4 per cent increase, rather than indicating a change in the underlying factors which determine productivity levels, is the result of a lag between rising output and rising employment. As economic activity increases, business is slow to add new workers until confident of sustained demand. Output per man-hour consequently rises. The reverse occurs during economic downturns when payroll cuts lag output reduction.

When the current rise in productivity is compared with previous cycles, there is less cause for optimism. During the second quarter of 1975, after the end of the 1973-75 recession, productivity soared by almost 12 per cent for the total private sector and 21 per cent in manufacturing. In the third quarter of 1980, manufacturing registered a productivity decline of 2.7 per cent at an annual rate, as output declined by 10.7 per cent and the number of hours worked dropped 8.3 per cent. This was the fourth consecutive quarter of declining productivity in the manufacturing sector, the longest period of decline since 1955-56.

. . . Profits . . .

Corporate profits fell again in the third quarter as industrial production remained slow, underutilization of capacity continued and "real" final sales remained

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350 Park Avenue, New York, NY 10022

sluggish. Heavily influenced by record losses in the automotive industry, it would appear that there was a ten per cent decline in pretax corporate profits in the third quarter. Although some oil companies still reported hefty profits, those with large refining and marketing operations did not. Sharply reduced demand for oil due to recession and conservation efforts by both consumers and industry resulted in an oil glut, which in turn forced refiners to reduce prices and cut production schedules, thus significantly narrowing profit margins.

The automotive sector and associated industries are currently the recession's biggest losers. During the first three quarters of 1980 the auto industry posted the worst financial results in its history. As a result of persistently low sales, the top three automakers suffered record losses totaling $1.5 billion in the second quarter of 1980 and $1.7 billion during the third quarter. Domestic car sales probably bottomed during the April-June period, as the industry averaged sales of 5.5 million units at annual rates. Sales have since rebounded to a 7.2 million unit clip. However, continued recovery is expected to be slow. Climbing interest rates and the erosion of consumer buying power due to inflation may prevent a significant rebound in automobile purchases for some time.

The copper industry has been adversely affected by slumping auto sales and also by the depressed

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 10/22/80	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	131.092	+ .112	+ 8.630
Member Bank Borrowings	1.203	+ .096	+ 1.757
Float	5.177	+ 1.836	– .158
Total Reserve Bank Credit	143.291	+ 2.103	+ 7.960
Treasury Deposits with Federal Reserve Banks	3.201	– .105	– .304
Currency Outside Banks	120.024	+ 1.075	+10.160
Member Bank Reserves:			
Required	42.111	+ 1.152	+ .559
Excess (Deficiency)	.114	– .009	– .050
Total Reserves Held	42.225	+ 1.053	+ .509
Net Borrowed Reserves	1.020	– .187	– 1.608
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	85.599	– .764	+ 2.570

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M-1A	387.2	+ 16.1	+ 5.7
M-1B	411.2	+ 18.5	+ 7.4
M-2 (September '80)	1,640.4	+ 14.5	+ 9.1
L (July '80)	2,245.0	+ 8.3	+ 8.8

† Seasonally adjusted.

* Seasonally adjusted annual rate.

New York Money Market

Offering Rates 10/31/80	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	12.50%	12.59%	12.17%
* Federal Agencies	13.75	13.75	13.70
* Project Notes–Taxfree (46% Taxable Equivalent)	9.26	11.57	11.30
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	14.20	14.35	

‡Finance Company Paper–Prime	
5- 14 days	13.25%
15- 29 days	13.30
30- 59 days	13.13
60-179 days	12.00
180-270 days	11.75

‡* Bankers' Acceptances	
Nov.	13.50%
Dec.	13.50
Jan.	13.40
Feb.	13.40
Mar.	13.30
Apr.	13.30

‡Industrial Paper–Prime	
30- 89 days	13.25%
90-120 days	13.50

† Federal Funds Effective Rate 13.80%

‡ Discount Basis. * Subject to Availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'80	$ 2,583	$ 2,521	$ 2,397
Gross National Product (1972 Dollars)*	3rd Q'80	$ 1,412	$ 1,409	$ 1,433
Percent Change, Annual Rate	3rd Q'80	1.0%	– 9.6%	9.6%
Change in Consumer Prices (all urban consumers)*	Sept '80	12.0%	8.4%	14.4%
Change in Producer Prices*	Sept '80	– 2.4%	18.0%	18.0%
Civilian Employment (Thousands of Persons) †	Sept '80	97,207	97,006	97,504
Unemployment as % of Civilian Labor Force †	Sept '80	7.5%	7.6%	5.8%
Personal Income*	Sept '80	$ 2,160	$2,140	$1,960
Leading Indicators Composite Index (1967=100) †	Sept '80n	133.6	130.5	140.1
Industrial Production Index (1967=100) †	Sept '80	142.4	141.0	152.7
Net Change in Consumer Installment Credit †	Aug '80	$ 0.02	– $ 0.61	$ 2.45
U.S. Merchandise Trade Balance †	Aug '80	– $ 0.13	– $ 0.92	– $ 2.56
Plant and Equipment Expenditures*	4th Q'80	$193.17(a)	$195.54(a)	$186.95
Private Housing Starts (Thousands of Units)*	Sept '80	1,544	1,416	1,874
New Construction Expenditures*	Aug '80	$ 212.9	$ 214.2	$ 231.6
Total Business Inventories †	Aug '80	$ 451.5	$ 449.5	$ 417.3
Total Business Sales †	Aug '80	$ 308.1	$ 303.9	$ 293.2

* Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. a-Anticipated.

conditions in the housing industry. These two areas account for two thirds of all copper produced. Copper consumption has declined by 63 per cent since the first of the year, and the industry's situation was further aggravated by a strike against manufacturers which started on July 1. As a result, most companies reported substantial losses this quarter.

The steel industry, also heavily dependent on the automobile industry, suffered even more. Total domestic shipments dropped to a nine-year low during the quarter, plants ran at around 50 per cent of capacity and the number of workers employed in the industry was the lowest since the Great Depression. In an effort to stimulate sales, steel producers offered discounts which caused even more red ink to flow.

Earlier declines in the housing sector were also felt by related industries such as forest products. As the outlook for housing improved following the second quarter decline in interest rates, lumber and plywood prices rose rapidly. However, this rebound was cut short by the resurgence in mortgage interest rates beginning in late June, which threatens to choke off the housing recovery. Lumber and plywood prices thus topped out at much lower levels than their most recent peak registered in early fall of 1979, before falling again at the end of the third quarter.

(Continued on back page)

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (10/15/80)	95,817	− 1,542	+ 5,888
New York City (10/15/80)	22,431	− 686	+ 3,822
Commercial Paper (10/15/80)	124,377	+ 643	+15,531

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/15/80)	165,909	+ 359	+12,739
New York City (10/15/80)	48,900	+ 84	+ 3,953

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/15/80)	410,737	+ 1,659	+19,007
New York City (10/15/80)	95,308	+ 1,561	+ 6,141

Financial Markets

	Friday 10/31/80	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	13.26%	+ 1.51	+ .64
180-Day Bills†	13.83	+ 2.08	+ .79
Longest Bills†	13.66	+ 2.20	+ .76
Recent Issues:			
12 1/8s 10/31/82 (When Issued)	13.10	NA	
12 1/2s 9/30/84	12.87	+ .83	
10 3/4s 8/15/90	12.41	+ .68	
10 3/8s 11/15/09	12.21	+ .60	
Municipals:			
Bond Buyer–20 Bond Index* (10/30/80)	9.45%	+ .39	+ 2.19
Blue List Total ($ Million	$ 874	− $ 65	+ $ 365
30-Day Visible Supply ($ Million)	$1,989	+ $279	+ $ 229
Total	$2,863	+ $214	+ $ 594
Corporates:			
Moody's Aa Composite (10/30/80)	13.41%	+ .74	+ 2.35
Money Mgr.–30-Day Supply ($ Million)	$3,623	− $ 57	+ $1,864
Stocks:			
Dow-Jones Averages:			
Industrials	924.49	− 19.11	+ 105.55
Transportation	361.31	− 12.16	+ 128.50
Utilities	110.99	− 1.75	+ 10.45
65 Stocks	352.08	− 8.49	+ 67.11
Standard and Poor's 500 Stocks	127.47	− 2.38	+ 24.87
N.Y.S.E. Composite Index	73.53	− 1.37	+ 15.36
N.Y.S.E. Avg. Daily Vol. for Week (000's)	38,250	− 6,872	+ 12,420

* 46% Taxable Equivalent 17.50%.

† Bond Equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 10/31/80	Week Ago
Overnight	13.50%	13.13%
1 month	14.50	13.50
3 month	15.06	13.94
6 month	14.94	13.88
1 year	14.13	13.25
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	12.95%	12.20%
Long Term (7 to 15 yrs.)	13.05	12.35

FOREIGN EXCHANGE SPOT RATES

New York Opening (10/31/80)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.03267	30.61
Canada	.8485	1.1785
Denmark	.1698	5.8690
France	.2272	4.4010
Germany	.5240	1.9085
Italy	.001107	903.00
Japan	.004713	212.20
Mexico	.04325	23.12
Netherlands	.4844	2.0645
Switzerland	.5814	1.7200
U.K.	2.4380	.4102

. . . And Inflation

Finally, the last inflation report released before the election adds to the disappointing news. The Consumer Price Index (CPI) returned to double-digit rates of rise in September as it advanced by 12.7 per cent at an annual rate after a brief respite in July and August. As expected, food prices at grocery stores led the increases with 1.9 per cent. Meats, poultry, fish and eggs were the major culprits, rising 3.5 per cent last month, or more than 51 per cent at an annual rate. This reflected not only the drought's damage to livestock feed crops but also previously planned production cutbacks for hogs and poultry by farmers in an attempt to boost prices from unsustainably low levels of last spring and early summer. The mortgage interest rate component of the CPI did not reflect the run-up of mortgage interest rates which has been underway since June since it dropped by 1.6 per cent. However, sharply higher home prices, the reacceleration in the cost of home-related services such as property insurance, household maintenance and repairs and the rise in household furnishings—the largest since March—more than offset the decline in mortgage costs and made home ownership 0.6 per cent more expensive last month. Meanwhile, energy commodities' prices slipped by 0.3 per cent as home fuel oil prices dropped by 0.1 per cent, and gasoline prices retreated for the fifth consecutive month.

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48th CECF

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In Hong Kong, contact:
James W. Sweitzer
Vice President & Manager
Paul Au
Assistant Secretary

Johnson C. Fu
Assistant Secretary
Edward Lau
Assistant Secretary

Alexandra House, 27th Floor
Hong Kong
Tel: (5) 253101
Telex: 73951 HX

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The Manufacturers
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Financial
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MONDAY, NOVEMBER 10, 1980
VOLUME XVII, NUMBER 45

Politics And Economics

Although the conventional wisdom believed that the elections would have little near-term impact on the business outlook, the magnitude of Mr. Reagan's victory, along with the rather sizable gains that the Republicans made in Congress, change things somewhat—at least for the next month or two.

For one thing, the Federal Reserve would seem to have more freedom to act in restraining the growth of money and credit. In the last few weeks the financial markets had come to believe that the Fed's control over the monetary aggregates was diminishing. As a consequence, inflation psychology had begun to reappear. In view of the "mandate" received by those who claim to be practitioners of a conservative economic policy, the Fed is less likely to encounter political interference as it goes about reasserting its control of money and credit.

Clearly, this has significant implications for the financial markets. Short-term interest rates may be expected to rise until the Fed brings growth in the money supply under control. If and as the Fed is successful in this undertaking, the bond markets should rally, pushing long-term interest rates down. Both rising short-term interest rates and their eventual implications for a reduced rate of inflation would tend to be bullish for the dollar in foreign exchange markets.

As for 1981, the outlook remains pretty much the same. A slow (and sometimes stumbling) recovery seems to be the best bet. Neither consumers nor business has the wherewithal to fuel a significant rise in outlays. Government spending will rise rapidly, but should slow as the year progresses in response to what should be increasing efforts to slow its growth by a conservative President and a conservative Congress.

This brings us to the longer run. To the extent the new Administration is able to put through its program of tax reductions for business and investors, it bodes well for the longer-run health of the economy. Obviously, this will mean expanding markets for those industries that produce capital goods. On the other hand, the combination of redoubled efforts to fight inflation along with reduced emphasis on consumption might make it more difficult for consumer goods industries to increase sales and earnings.

Inflation May Be Tough To Reduce . . .

The President-elect has a difficult job ahead as he tackles inflation, which has recently returned to double-digit rates of rise. In its monthly survey, the National Association of Purchasing Agents reported more industrial materials were affected by inflation in October than in September as buying managers noticed increased incidences of higher prices. October's rise in the Producer Price Index was a sharp 0.8 per cent, while the Labor Department's weekly index of spot commodity prices has posted a 12.3 per cent increase since midyear, or almost 37 per cent at an annual rate. This rapid climb was paced by a 16.9 per cent advance in the price of basic metals, partially a result of the slightly improved economic situation and thus an upsurge in demand.

Copper prices, however, have held at relatively high levels despite a poor supply/demand position. The price has remained at around 95 cents since July 1. During this time consumption dropped as a result of reduced demand by major consumers—autos and housing—and because most buyers purchased the metal prior to July 1 in anticipation of a strike against manufacturers (Financial Digest—November 3, 1980). However, even as the strike materialized and production was reduced, inventories held by refiners and consumers continued to expand.

Similarly, the demand for aluminum has been sluggish. Domestic shipments totaled 8,180 million pounds during the first eight months of the year, or 13 per cent below a year ago. However, the current price is 15 per cent above last year's level because many users expect future production—which is extremely energy intensive—to be curtailed, particularly in Europe. Consequently, the current oversupply produced by the recession may soon be exhausted.

. . . Because Commodity Prices Are Jumping

Food prices were the major factors behind the recent surge in inflation at the retail level. At the commodity level foodstuffs have escalated by 11.6 per cent since July, pushed primarily by a 15.4 per

Manufacturers Hanover Trust Company
350 Park Avenue, New York, NY 10022

cent increase in meat prices. Beef prices advanced due to reductions in herds initiated back in 1976. Hog and poultry production was recently slashed because previously abundant supplies held prices below the cost of production and because of the drought. Currently soaring prices of feedgrains, rising interest rates and increasing costs of other items associated with production will preclude a rebound in meat production for some time.

Grain prices have experienced strong upward pressures particularly as a result of the summer drought, and more recently, due to the poor harvest in the Soviet Union and the pact with China. Estimates of domestic feedgrains production and stocks made by the Department of Agriculture have been reduced monthly, and the downward trend in revisions will probably continue. The most recent estimate of the current year corn crop was 6.47 billion bushels, or 17 per cent below the 1979 harvest. Sorghum output is expected to decline by a third, and oats production may fall by 16 per cent.

Importantly, soybean output is forecast to be down by 23 per cent from the record 1979 harvest. Factors contributing to these declines were a reduced number of acres planted for some grains and a drop in yield caused by the heat and drought in the Midwestern states. Combined with expected increases in consumption especially from abroad, a supply squeeze may develop. Intensified by smaller harvests by some of the other large producers, such as

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 10/29/80	$ Change Since	
		Week Ago	Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	130.542	– .550	+ 6.601
Member Bank Borrowings	1.440	+ .237	– 1.611
Float	3.370	– 1.743	– .778
Total Reserve Bank Credit	141.816	– 1.412	+ 5.872
Treasury Deposits with Federal Reserve Banks	3.190	– .011	+ .117
Currency Outside Banks	118.908	– 1.096	+10.251
Member Bank Reserves:			
Required	41.930	– .181	– 1.344
Excess (Deficiency)	.088	+ .020	– .271
Total Reserves Held	42.018	– .161	– 1.615
Net Borrowed Reserves	1.265	+ .199	– 1.784
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	85.677	+ .078	+ 3.748

		% Change Since	
Monetary Aggregates †		Three Months Ago*	Year Ago
M-1A	386.6	+ 15.2	+ 5.7
M-1B	410.7	+ 17.7	+ 7.6
M-2 (September '80)	1,640.2	+ 14.5	+ 9.1
L (July '80)	2,245.0	+ 8.3	+ 8.8

† Seasonally adjusted. * Seasonally adjusted annual rate.

New York Money Market

Offering Rates 11/7/80	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	13.26%	13.15%	12.36%
* Federal Agencies	14.25	14.00	13.90
* Project Notes–Taxfree (46% Taxable Equivalent)	10.19	12.04	12.59
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	15.00	13.50	

‡Finance Company Paper–Prime	
5- 14 days	14.00%
15- 29 days	14.50
30- 59 days	14.65
60-179 days	13.75
180-270 days	13.75

‡* Bankers' Acceptances	
Dec.	14.75%
Jan.	14.75
Feb.	14.75
Mar.	14.70
Apr.	14.70
May	14.50

‡Industrial Paper–Prime	
30- 89 days	14.50%
90-120 days	14.75

† Federal Funds Effective Rate 15.00%

‡ Discount Basis. * Subject to Availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'80	$ 2,583	$ 2,521	$ 2,397
Gross National Product (1972 Dollars)*	3rd Q'80	$ 1,412	$ 1,409	$ 1,433
Percent Change, Annual Rate	3rd Q'80	1.0%	– 9.6%	3.1%
Change in Consumer Prices (all urban consumers)*	Sept '80	12.0%	8.4%	14.4%
Change in Producer Prices*	Oct '80n	9.6%	– 2.4%	13.2%
Civilian Employment (Thousands of Persons) †	Oct '80n	97,176	97,207	97,474
Unemployment as % of Civilian Labor Force †	Oct '80n	7.6%	7.5%	5.9%
Personal Income*	Sept '80	$ 2,160	$ 2,140	$ 1,960
Leading Indicators Composite Index (1967=100) †	Sept '80	133.6	130.5	140.1
Industrial Production Index (1967=100) †	Sept '80	142.4	141.0	152.7
Net Change in Consumer Installment Credit †	Sept '80n	$ 1.45	$ 0.02	$ 4.45
U.S. Merchandise Trade Balance †	Sept '80n	–$ 0.76	–$ 0.13	–$ 2.58
Plant and Equipment Expenditures*	4th Q'80	$193.17(a)	$195.54(a)	$186.95
Private Housing Starts (Thousands of Units)*	Sept '80	1,544	1,416	1,874
New Construction Expenditures*	Sept '80n	$222.0	$215.1	$235.3
Total Business Inventories †	Aug '80	$ 451.5	$ 449.5	$ 417.1
Total Business Sales †	Aug '80	$ 308.1	$ 303.9	$ 293.2

* Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. a-Anticipated.

Australia, farm prices for all grains are projected to be substantially higher for the 1980-81 season.

Business Costs Rise Too Soon

Although September's increase of 2.4 per cent in the index of leading indicators was good news for the economy, the 3.3 per cent increase in the index of the lagging indicators was not. This latter index is a composite of six statistics which trail the movement in the overall economy in general and the leading indicators in particular. It mostly measures the cost of doing business, including labor costs, "real" inventories, the prime rate, commercial and industrial loans outstanding and others, which usually start rising only after a recovery is well underway. Last month's rise—the first since April—was the largest during the postwar period with the exception of a 5.2 per cent increase registered just last March; it occurred only four months after the leading indicators posted their first increase.

In the past, the lagging indicators trailed considerably behind the index of leading indicators. The shortest lag between an upturn in the leading indicators and a resurgence in the lagging indicators was eight months, after the 1957-58 recession. The longest lag—19 months—occurred after the 1969-70 recession. Since the current advance was so large and so soon after the upturn in the leading indicators, there are concerns that this rise in business costs may abort the current uptick in economic activity, pushing it down once again.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (10/22/80)	96,503	+ 586	+ 6,165
New York City (10/22/80)	22,520	+ 89	+ 4,293
Commercial Paper (10/22/80)	124,805	+ 428	+17,155

Bank Loans

(Millions of Dollars)

Weekly Reporting Large Commercial Banks	**Commercial and Industrial Loans** Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/22/80)	165,964	+ 55	+12,381
New York City (10/22/80)	48,405	− 495	+ 3,436

	Total Loans Gross Adjusted Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/22/80)	410,077	− 660	+20,989
New York City (10/22/80)	94,629	− 679	+ 8,131

Financial Markets

	Friday 11/7/80	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	13.02%	− .24	+ 2.21
180-Day Bills†	12.84	− .99	+ 1.95
Longest Bills†	12.17	− 1.49	+ 1.28
Recent Issues:			
12⅛s 10/31/82	13.16	+ .06	
12½s 9/30/84	13.40	+ .53	
13s 11/15/90 (When Issued)	12.90	NA	
10⅜s 11/15/09	12.35	+ .14	
Municipals:			
Bond Buyer—20 Bond Index* (11/6/80)	9.64%	+ .19	+ 2.37
Blue List Total ($ Million)	$ 808	− $ 66	+ $ 127
30-Day Visible Supply ($ Million)	$2,390	+ $401	+ $ 679
Total	$3,198	+ $335	+ $ 806
Corporates:			
Moody's Aa Composite (11/6/80)	13.34%	− .07	+ 1.99
Money Mgr.—30-Day Supply ($ Million)	$4,083	+ $460	+ $2,474
Stocks:			
Dow-Jones Averages:			
Industrials	932.42	+ 7.93	+ 125.94
Transportation	363.22	+ 1.91	+ 130.36
Utilities	109.94	+ 1.05	+ 10.75
65 Stocks	353.81	+ 1.73	+ 71.88
Standard and Poor's 500 Stocks	129.18	+ 1.71	+ 27.61
N.Y.S.E. Composite Index	74.35	+ .82	+ 16.57
N.Y.S.E. Avg. Daily Vol. for Week (000's)	52,255	+14,005	+ 28,313

* 46% Taxable Equivalent 17.85%.

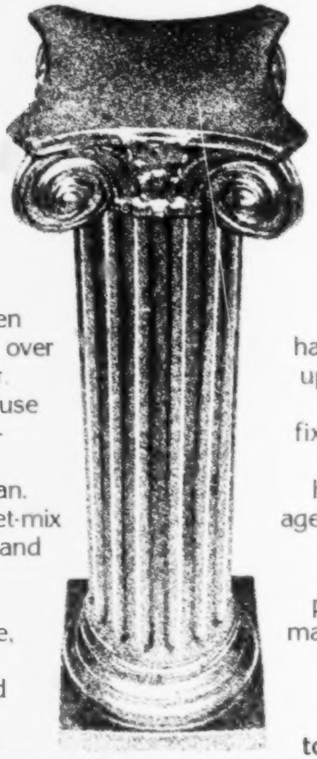
International Rates

EURODOLLAR DEPOSIT RATES (bid)	**Friday 11/7/80**	Week Ago
Overnight	15.00%	13.50%
1 month	16.00	14.50
3 month	16.50	15.06
6 month	16.50	14.94
1 year	15.13	14.13
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	13.23%	12.95%
Long Term (7 to 15 yrs.)	13.50	13.05

FOREIGN EXCHANGE SPOT RATES

New York Opening (11/7/80)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.03182	31.43
Canada	.8405	1.1898
Denmark	.1163	6.0115
France	.2215	4.5145
Germany	.5103	1.9595
Italy	.001086	920.80
Japan	.004684	213.50
Mexico	.04320	23.15
Netherlands	.4720	2.1185
Switzerland	.5687	1.7585
U.K.	2.4280	.4119

At Manufacturers Hanover we don't put any one asset category on a pedestal.



Some fund managers have been known to favor one asset category over others. Not Manufacturers Hanover.

Our approach is, first of all, to use absolute rate of return objectives—derived directly from the precise characteristics of the retirement plan. So we can establish a realistic asset-mix policy that reflects your objectives and the investment future.

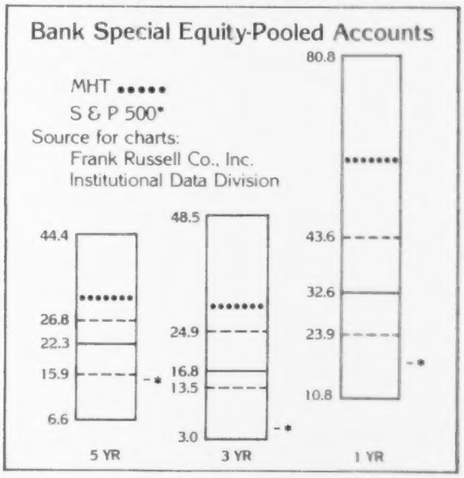
Investment vehicles are then chosen—but only after an intensive, objective analysis of the expected returns and the volatility associated with each possible asset category. Our lack of biases toward any particular type of asset enables us to deliver stable returns over the course of a market cycle.

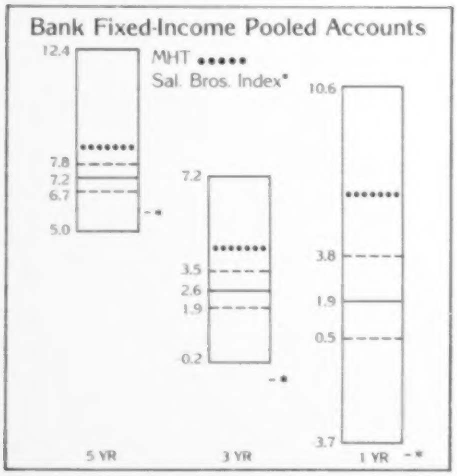
As the charts show, this approach has put Manufacturers Hanover in the upper quartile level of returns in both special equity-pooled accounts and fixed-income pooled accounts.

Most importantly, Manufacturers Hanover runs each investment management program the way any well-run business operates. Techniques like long-range planning, contingency planning, quality control, and performance measurement guide every step of the decision-making process.

To learn more details about the Manufacturers Hanover approach to investment management, contact William C. Petty III, Vice President, at the address below or at (212) 957-0760.

Annualized Rates of Return—Periods Ending Dec. 31, 1979





MANUFACTURERS HANOVER

Trust Division, 600 Fifth Avenue, New York, N.Y. 10020

11/17/80
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The Manufacturers Hanover
Financial Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, NOVEMBER 17, 1980
VOLUME XVII, NUMBER 46

Reports Of The Recession's Demise . . .

The weak performance of consumer spending and credit during the third quarter when considered along with the absolute drop in the October retail sales figures and the rise in unemployment bring into question not only the strength of the widely heralded economic recovery but also whether it really took place at all. It is becoming increasingly apparent that the improvement in retail sales in the third quarter was simply a partial satisfaction of demand deferred from the second quarter under the Fed's credit control regime. The return to a decline in retail sales in October indicates that the underlying weakness in the retail sector (which usually leads recovery from recession in the U.S.) and, indeed, weakness in the economy as a whole, still exists.

The Commerce Department reports that retail sales in October declined by 0.1 per cent in nominal terms from the previous month, the first decline since last May. In September retail sales were up by 1.5 per cent. If the effects of inflation are stripped away, however, October's decline in retail sales was about one per cent.

The fall in retail sales was particularly evident in durable goods which slipped by 1.1 per cent in nominal terms after rising by 3.9 per cent in September. Durable goods, which include such items as automobiles and large appliances, are very sensitive to changes in interest rate levels because they are usually financed over a period of time. Automobile sales, for example, decreased by 2.1 per cent in October after rising 5.2 per cent in September when the cost of consumer credit, though high, was still below levels subsequently reached in October and November. Nondurables, less subject to interest rate influences, still grew by only 0.3 per cent last month after a 0.5 per cent rise the month before. This, too, would suggest that there is evidence of weakness in the retail sector.

In fact, evidence of weakness in final consumption can be found all across the board. For example, single-family housing has been weak even while retail sales were showing superficial signs of improvement. September was the second consecutive month of decline in single-family housing sales, as they posted a drop of 13.8 per cent, seasonally adjusted. At September's sales rate, homebuilders reported a 7.9 months' supply of houses on hand, up from 6.2 months' in August. Continued softness in the housing market is expected because mortgage rates continued to rise in October and November over the rates that prevailed in September.

. . . Are Greatly Exaggerated

Consumer credit was up by a seasonally adjusted $1.45 billion in September (6.0 per cent at an annual rate) after a very small rise of $15 million in August. The August increase was the first monthly increase since March when credit controls were imposed by the Federal Reserve (and removed in June). But in spite of the removal of credit controls at the end of the second quarter of this year (during which net outstanding consumer credit fell at an 11.5 per cent annual rate from the first quarter), consumer credit rose by only one per cent in the third quarter. This increase, again, occurred during a brief period when installment credit costs were declining.

The outlook for consumer spending is not bright. While a recent survey by the Conference Board shows that consumer confidence has been improving for the past few months, buying plans declined in October after a strong gain in September. For example, the proportion of those surveyed who plan to buy either a new or used automobile during the next six months declined from 7.4 per cent to 6.4 per cent last month. The number of prospective purchasers of major appliances also fell, going from 28.9 per cent to 25.4 per cent, while homebuying plans also declined. Of those surveyed, 2.8 per cent plan to buy a home in the next six months, down from three per cent in the September survey.

Certainly, the prospects for recovery have been hurt by rising short- and long-term interest rates in the last few months, and continuing rises are imminent before they begin to decline. Concern about the near-term course of the economy is reflected in the continuing high levels of debt liquidation. From April through July of this year, consumer debt liquidation exceeded new consumer debt extended. In August and September net consumer debt began to grow again

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but very modestly. This reflects continued concern not only about the course of the economy as a whole but also about personal prospects as well.

Meanwhile, unemployment rose to 7.6 per cent in October after dropping to 7.5 per cent in September. The number of employed persons declined in October by a statistically insignificant 31,000 jobs out of a total employment of 97.2 million, but the number of unemployed grew by 178,000, reflecting a greater increase in the size of the potential work force than industries to absorb them. It is clear that high and rising interest rates, continued high levels of consumer debt, high inflation and consequent declining real purchasing power continue to limit personal consumption. The fourth quarter may well see a return to negative or, at best, a flat rate of real growth.

A New Wave Of Price Hikes ?

One clue as to what lies ahead on the inflation front may be found by examining the various Producer Price Indexes. These illustrate an ominous accelerating trend in prices at each stage of production which may well be the leading edge of a new wave of increased consumer prices.

Each stage of production of goods serves as the basis

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 11/5/80	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	130.125	− .417	+ 6.960
Member Bank Borrowings	1.878	+ .438	− .050
Float	3.058	− .305	− 1.250
Total Reserve Bank Credit	141.909	+ .100	+ 7.584
Treasury Deposits with Federal Reserve Banks	2.291	− .899	− .855
Currency Outside Banks	118.948	+ .040	+ 9.865
Member Bank Reserves:			
Required	42.032	+ .102	− .058
Excess (Deficiency)	.591	+ .510	+ .182
Total Reserves Held	42.623	+ .612	+ .124
Net Borrowed Reserves	1.215	− .057	− .085
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	85.850	+ .173	+ 5.813

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M-1A (10/29/80)	386.5	+ 15.0	+ 5.7
M-1B (10/29/80)	410.5	+ 17.5	+ 7.5
M-2 (September '80)	1,641.3	+ 14.8	+ 9.2
L (August '80)	2,271.8	+ 10.3	+ 9.2

†Seasonally adjusted. * Seasonally adjusted annual rate.

New York Money Market

Offering Rates 11/14/80	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	13.31%	13.08%	12.27%
* Federal Agencies	14.13	13.68	13.48
* Project Notes–Taxfree (46% Taxable Equivalent)	11.11	13.70	13.89
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	15.95	14.85	

‡Finance Company Paper–Prime	
5- 14 days	12.50%
15- 29 days	13.50
30- 59 days	14.25
60-179 days	14.25
180-270 days	13.25

‡* Bankers' Acceptances	
Dec.	14.40%
Jan.	14.40
Feb.	14.35
Mar.	14.10
Apr.	13.85
May	13.50

‡Industrial Paper–Prime	
30- 89 days	14.25%
90-120 days	13.00

† Federal Funds Effective Rate 14.13%

‡Discount Basis. * Subject to Availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'80	$ 2,583	$ 2,521	$ 2,397
Gross National Product (1972 Dollars)*	3rd Q'80	$ 1,412	$ 1,409	$ 1,433
Percent Change, Annual Rate	3rd Q'80	1.0%	− 9.6%	3.1%
Change in Consumer Prices (all urban consumers)*	Sept '80	12.0%	8.4%	14.4%
Change in Producer Prices*	Oct '80	9.6%	− 2.4%	13.2%
Civilian Employment (Thousands of Persons)†	Oct '80	97,176	97,207	97,474
Unemployment as % of Civilian Labor Force†	Oct '80	7.6%	7.5%	5.9%
Personal Income*	Sept '80	$ 2,160	$ 2,140	$ 1,960
Leading Indicators Composite Index (1967=100)†	Sept '80	133.6	130.5	140.1
Industrial Production Index (1967=100)†	Sept '80	142.4	141.0	152.7
Net Change in Consumer Installment Credit†	Sept '80	$ 1.45	$ 0.02	$ 4.45
U.S. Merchandise Trade Balance†	Sept '80	−$ 0.76	−$ 0.13	−$ 2.58
Plant and Equipment Expenditures*	4th Q'80	$193.17(a)	$195.54(a)	$186.95
Private Housing Starts (Thousands of Units)*	Sept '80	1,544	1,416	1,874
New Construction Expenditures*	Sept '80	$ 222.0	$ 215.1	$ 235.3
Total Business Inventories†	Sept '80n	$ 454.5	$ 452.0	$ 418.5
Total Business Sales†	Sept '80n	$ 317.6	$ 308.0	$ 296.8

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

for the next stage. As this proceeds from crude materials to intermediate products, to finished goods which are finally purchased for consumption, price increases at any one stage will contribute later to price increases at the next stage, and so on. The ultimate purchasers—consumers—must pay the final bill.

The Producer Price Index for crude materials rose 1.3 per cent in September and 1.9 per cent in October. At the next stage, intermediate goods prices increased 0.6 per cent in September and 0.9 per cent in October. Prices for finished goods declined slightly in September by 0.2 per cent—but increased in October by 0.8 per cent. Although there is no systematic way to calculate the net effect of these increases, the combination will produce a bulge in the upward trend of consumer prices.

Pressure from another direction will also be felt soon in consumer prices. Mortgage costs enter the Consumer Price Index with a lag. Because mortgage rates fell in August, they depressed September's CPI. The fact that mortgage rates climbed again in September will produce a corresponding boost in the October CPI. Combined pressures from mortgage costs and from the Producer Price Index bulge could easily lead to inflation rates in the fourth quarter which return to the double-digit range.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (10/29/80)	99,381	+ 2,774	+ 8,500
New York City (10/29/80)	23,908	+ 1,388	+ 5,098
Commercial Paper (10/29/80)	124,839	+ 34	+17,167

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/29/80)	166,208	+ 244	+11,616
New York City (10/29/80)	48,565	+ 160	+ 3,182

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/29/80)	412,574	+ 2,497	+20,853
New York City (10/29/80)	96,586	+ 1,957	+ 8,879

Financial Markets

	Friday 11/14/80	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	13.42%	+ .40	+ .98
180-Day Bills†	13.20	+ .36	+ .34
Longest Bills†	12.34	+ .17	– .02
Recent Issues:			
12 1/8s 10/31/82	12.35	– .81	
12 1/8s 9/30/84 (When Issued)	12.46	NA	
13s 11/15/90	12.87	– .03	
12 3/4s 11/15/10 (When Issued)	12.39	NA	
Municipals:			
Bond Buyer–20 Bond Index* (11/13/80)	9.50%	– .14	+ 2.12
Blue List Total ($ Million)	$ 712	– $ 96	– $ 103
30-Day Visible Supply ($ Million)	$2,661	+ $271	+ $1,392
Total	$3,373	+ $175	+ $1,289
Corporates:			
Moody's Aa Composite (11/13/80)	13.26%	– .08	+ 1.99
Money Mgr.–30-Day Supply ($ Million)	$3,878	– $205	+ $2,161
Stocks:			
Dow-Jones Averages:			
Industrials	986.35	+ 53.93	+ 174.58
Transportation	391.96	+ 28.74	+ 148.29
Utilities	116.76	+ 6.82	+ 11.82
65 Stocks	376.91	+ 23.10	+ 87.53
Standard and Poor's 500 Stocks	137.15	+ 7.97	+ 33.36
N.Y.S.E. Composite Index	78.96	+ 4.61	+ 22.30
N.Y.S.E. Avg. Daily Vol. for Week (000's)	55,436	+ 3,181	+ 23,313

* 46% Taxable Equivalent 17.59%.

† Bond Equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 11/14/80	Week Ago
Overnight	14.38%	15.00%
1 month	15.25	16.00
3 month	15.63	16.50
6 month	15.25	16.50
1 year	14.13	15.13
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	12.76%	13.23%
Long Term (7 to 15 yrs.)	12.76	13.50

FOREIGN EXCHANGE SPOT RATES

New York Opening (11/14/80)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.03273	30.555
Canada	.8431	1.1861
Denmark	.1708	5.8535
France	.2269	4.4075
Germany	.5255	1.9030
Italy	.001108	902.50
Japan	.004688	213.30
Mexico	.04316	23.17
Netherlands	.4848	2.0625
Switzerland	.5833	1.7145
U.K.	2.4137	.4143

THE SHAREHOLDERS RELATIONS FITNESS TEST.

STRENGTH:

Effective shareholder relations start with a stock transfer agent backed by an ongoing investment in hardware, software and "peopleware."

At Manufacturers Hanover, we're committed to having on-line the latest generation of computers with the most sophisticated programming capabilities available.

TRANSIFAC,℠ the nerve center of our entire operation, has a track record no competitor can match. Just ask any of the some 400 corporations we serve.

WEIGHT:

For many customers, Manufacturers Hanover has reduced the number of shareholder accounts by more than 10% – the result of seeking out duplicate accounts the previous stock transfer agent may have entered wrong.

REFLEXES:

At Manufacturers Hanover, shareholder records are accessible instantly. So you can respond without delay to such developments as tender offers.

MEMORY:

Our TRANSIFAC system maintains fully computerized audit controls over all work; keeps track of certificate inventory; and assures control over the production of certificates and transfer reports and the mailing of dividend checks.

POSTURE:

Manufacturers Hanover recognizes that the human side of this business is all-important. Not only will you have an account administrator coordinating all day-to-day tasks, but a backup team of three other officers thoroughly familiar with every aspect of your account. So you and your shareholders always have someone to turn to.

If your present stock transfer agent looks out of shape to you, talk to Manufacturers Hanover. For more information on our stock transfer and registration services, contact Joseph Unger, Vice President, at (212) 623-7542. Or write us at 40 Wall Street, N.Y., N.Y. 10015.

IF YOUR STOCK TRANSFER AGENT CAN'T PASS IT, TALK TO MANUFACTURERS HANOVER.

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The Manufacturers Hanover
Financial Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, NOVEMBER 24, 1980
VOLUME XVII, NUMBER 47

Good News Or Bad ?

Despite the apparent good news heralded by the strong surge in industrial production in October, it would be more appropriate to view this gain against the backdrop of sluggish retail sales and still lofty "real" inventory-sales ratios. For while businesses may be able to step up their production levels in the near term, they cannot do so for long if the output goes unsold and instead piles up in manufacturing and trade inventories.

In October, industrial production rose 1.6 per cent compared with month-earlier levels. This was the third strong gain in a row and the largest monthly advance since April, 1978. Although the production increases were broadly distributed throughout a wide variety of industries, some of the greatest gains were posted by the automobile, steel and home goods industries. Automobile assemblies were at a 6.7 million-unit annual rate in October, well above the 6.0 million-unit assembly rate recorded in September. Production of home goods—such as furniture and appliances—increased almost two per cent in October, undoubtedly buoyed by the runup of new housing starts in earlier months.

Unfortunately, while the factories may be producing more, households are not buying more. Retail sales turned soft in October, declining at least one per cent month-over-month after adjustment for seasonal variation and inflation. Perhaps most important, the largest sales slowdowns were concentrated in those areas which will either immediately or eventually affect those industries which posted the largest production gains in October. Auto sales slumped 2.1 per cent in October after rising 5.2 per cent in the preceding month, an ominous sign for both the automobile and steel industries. Similarly, sales of household appliances and furniture remained sluggish, a development that could presage significant production cutbacks in coming months by the home goods manufacturers.

Finally, if higher output levels in these key industries are indeed beginning to back up once again, they come on top of already hefty stocks relative to sales. In "real" terms, the ratio of inventories-to-sales at the manufacturing level for all durable goods industries stood at 2.45 in September, almost ten per cent higher than year-earlier levels and about where it stood near the trough of the 1973-75 recession.

Interest Rates Climb . . .

The rapid ascent of short- and long-term interest rates sputtered recently amid a variety of signs that the pace of economic activity was slowing and a spreading euphoria among financial market participants regarding the economic policy implications of the recent elections. Among the more important indicators that economic weakness continues to persist was the downturn in retail sales, the very sluggish pace of new automobile sales and a sharp drop in new building permits issued, all occurring in October. In addition, the pronouncements of the President-elect and his advisors that government spending will be reduced have been favorably received by many investors who seem increasingly to believe that Federal government finances may finally be put in order.

But despite the slowing of economic activity and the transitory rally occurring in the financial markets, many of the same factors which have been propelling interest rates upward continue uncorrected and may have even deteriorated slightly. First, money supply growth is still far too rapid and clearly jeopardizes the ability of the Federal Reserve to achieve its 1980 monetary growth targets. During the past 13 weeks, for example, M-1A has advanced at a seasonally adjusted annual rate of 12 per cent while M-1B has expanded at a 14.5 per cent annual rate. Although the year-to-date expansion of M-1A is still within its target growth boundaries, M-1B growth is not, for it is well above its upper target boundary of 6.5 per cent.

Second, business loan demand remains strong. Commercial and industrial loans at large weekly reporting banks expanded at an almost 14 per cent seasonally adjusted annual rate during the past month and at an approximately 19 per cent annual rate during the past three months. Finally, the rate of inflation remains at unacceptably high levels. After posting a sizable 0.7 per cent month-over-month gain in August, the rate of consumer price inflation worsened in September, advancing one per cent month-over-month, or at a 12.7 per cent compounded annual rate of change. Similarly, the Producer Price Index surged ahead in October,

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rising 0.8 per cent month-over-month, or at a 10.6 per cent compounded annual rate.

In light of these developments it appears likely that the Federal Reserve will maintain a relatively restrictive monetary policy stance—or even continue to firm policy slightly—at least through yearend. Thus, although short-term interest rates may be near their peaks, they are probably not at them yet, and could rise somewhat further before dropping back in early 1981.

. . . Still Further

Indicative of the firmer policy stance which has characterized central bank actions in recent weeks was the decision by the Federal Reserve to allow the Federal funds rate (the cutting edge for all other short-term interest rates) to rise above the upper boundary of the last officially announced target range of 8 to 14 per cent. During the week ending November 7, in fact, the funds rate averaged almost 14.80 per cent. Since then, however, the funds rate has declined slightly. It averaged 14.05 per cent during the week ending November 14, which is still more than 150 basis points above the weekly average prevailing only four weeks ago.

In the Treasury bill market, rates continued to climb. This reflects the impact of a firmer monetary policy in general, and the increased supply of these instru-

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

Reserve Bank Credit	Week Ending 11/12/80	$ Change Since Week Ago	$ Change Since Year Ago
U.S. Gov'ts and Agencies			
Owned Outright & RPs	129.599	– .526	+ 6.758
Member Bank Borrowings	2.067	+ .189	+ .206
Float	4.511	+ 1.473	– 1.249
Total Reserve Bank Credit	143.417	+ 1.530	+ 7.925
Treasury Deposits with			
Federal Reserve Banks	3.062	+ .771	+ .211
Currency Outside Banks	120.249	+ 1.299	+10.271
Member Bank Reserves:			
Required	41.686	– .346	– .936
Excess (Deficiency)	.574	+ .007	+ .277
Total Reserves Held	42.260	– .339	– .659
Net Borrowed Reserves	1.397	+ .158	– .020
Gov'ts held for Foreign Acct.			
by F.R. Banks (End-of-Week)	86.334	+ .484	+ 9.281

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M-1A (11/5/80)	387.2	+ 4.5	+ 4.8
M-1B (11/5/80)	411.9	+ 7.3	+ 6.7
M-2 (October '80)	1,653.3	+ 10.0	+ 9.5
L (August '80)	2,271.8	+ 10.3	+ 9.2

† Seasonally adjusted. * Seasonally adjusted annual rate.

New York Money Market

Offering Rates 11/21/80	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	13.75%	13.70%	12.70%
* Federal Agencies	14.80	13.94	14.10
* Project Notes—Taxfree (46% Taxable Equivalent)	12.50	15.28	15.28
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	16.20	15.90	

‡Finance Company Paper—Prime	
5- 14 days	14.87%
15- 29 days	15.25
30- 59 days	15.25
60-179 days	13.75
180-270 days	13.75

‡* Bankers' Acceptances	
Dec.	15.00%
Jan.	15.00
Feb.	15.50
Mar.	15.00
Apr.	14.90
May	14.60

‡Industrial Paper—Prime	
30- 89 days	15.87%
90-120 days	15.87

† Federal Funds Effective Rate 17.50%

‡Discount Basis. * Subject to Availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'80	$ 2,587	$ 2,521	$ 2,397
Gross National Product (1972 Dollars)*	3rd Q'80	$ 1,412	$ 1,409	$ 1,433
Percent Change, Annual Rate	3rd Q'80	0.9%	– 9.6%	3.1%
Change in Consumer Prices (all urban consumers)*	Sept '80	12.0%	8.4%	14.4%
Change in Producer Prices*	Oct '80	9.6%	– 2.4%	13.2%
Civilian Employment (Thousands of Persons) †	Oct '80	97,176	97,207	97,474
Unemployment as % of Civilian Labor Force †	Oct '80	7.6%	7.5%	5.9%
Personal Income*	Oct '80n	$ 2,190	$ 2,167	$ 1,981
Leading Indicators Composite Index (1967=100) †	Sept '80	133.6	130.5	140.1
Industrial Production Index (1967=100) †	Oct '80n	146.0	143.7	152.7
Net Change in Consumer Installment Credit †	Sept '80	$ 1.45	$ 0.02	$ 4.45
U.S. Merchandise Trade Balance †	Sept '80	–$ 0.76	–$ 0.13	–$ 2.58
Plant and Equipment Expenditures*	4th Q'80	$193.17(a)	$195.54(a)	$186.95
Private Housing Starts (Thousands of Units)*	Oct '80n	1,569	1,545	1,710
New Construction Expenditures*	Sept '80	$ 222.0	$ 215.1	$ 235.3
Total Business Inventories †	Sept '80	$ 454.5	$ 452.0	$ 418.5
Total Business Sales †	Sept '80	$ 317.6	$ 308.0	$ 296.8

* Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. a-Anticipated.

ments in particular, as a result of the massive financing needs of the Treasury. As a consequence, the average discount rate for three-month bills reached 13.51 per cent at the November 10 auction, 217 basis points above auction rates prevailing only four weeks ago. Similarly, six-month bill rates rose to 13.23 per cent, 195 basis points above month-earlier levels. Finally, three-month certificate of deposit rates continued to climb during the past month. They reached 15.10 per cent on November 14, 240 basis points above the rate prevailing four weeks ago. This, in turn, produced further increases in the prime lending rate, which has now reached 17.00 per cent.

But despite the sharp increases in the prime rate and commercial paper rates, most new corporate borrowing seems to be largely confined to the banks. During the four weeks ending November 5, commercial and industrial loans outstanding, adjusted for seasonal variation, rose almost $3 billion. Outstanding commercial paper for nonfinancial corporations continued to drop, however, declining a seasonally adjusted $695 million during the four weeks ending November 5. Interestingly, outstanding commercial paper for nonfinancial corporations in early November was almost ten per cent below the peak level reached in July. This might be a reflection of the more aggressive pricing postures adopted by commercial banks in light of the competitive threat posed by the paper market. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (11/5/80)	100,463	+ 1,082	+ 9,651
New York City (11/5/80)	24,383	+ 481	+ 5,526
Commercial Paper (11/5/80)	124,283	– 556	+13,075

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/5/80)	169,166	+ 2,998	+14,652
New York City (11/5/80)	49,593	+ 1,028	+ 4,201

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/5/80)	417,631	+ 5,075	+26,331
New York City (11/5/80)	98,017	+ 1,431	+10,239

Financial Markets

	Friday 11/21/80	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	15.00%	+ 1.58	+ 2.80
180-Day Bills†	15.13	+ 1.93	+ 2.53
Longest Bills†	14.59	+ 2.25	+ 2.15
Recent Issues:			
12 1/8s 10/31/82	13.88	+ 1.53	
12 1/8s 9/30/84	13.28	.82	
13s 11/15/90	13.12	+ .25	
12 3/4s 11/15/10	12.60	+ .21	
Municipals:			
Bond Buyer–20 Bond Index* (11/20/80)	9.50%	–0–	+ 2.12
Blue List Total ($ Million)	$ 8.32	+ $120	+ $ 17
30-Day Visible Supply ($ Million)	$1,716	– $945	+ $ 447
Total	$2,548	– $825	+ $ 464
Corporates:			
Moody's Aa Composite (11/20/80)	13.28%	+ .02	+ 2.01
Money Mgr.–30-Day Supply ($ Million)	$4,632	+ $754	+ $2,915
Stocks:			
Dow-Jones Averages:			
Industrials	989.93	+ 3.58	+ 178.16
Transportation	413.60	+ 21.64	+ 167.93
Utilities	116.21	– 0.55	+ 11.27
65 Stocks	384.15	+ 7.24	+ 94.77
Standard and Poor's 500 Stocks	139.11	+ 1.96	+ 35.32
N.Y.S.E. Composite Index	80.17	+ 1.21	+ 20.51
N.Y.S.E. Avg. Daily Vol. for Week (000's)	64,137	+ 8,701	+ 32,014

* 46% Taxable Equivalent 17.59%.

† Bond Equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 11/21/80	Week Ago
Overnight	17.00%	14.38%
1 month	17.00	15.25
3 month	16.94	15.63
6 month	16.19	15.25
1 year	15.06	14.13

EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	13.05%	12.76%
Long Term (7 to 15 yrs.)	13.15	12.76

FOREIGN EXCHANGE SPOT RATES

New York Opening (11/21/80)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.03205	31.20
Canada	.8437	1.1853
Denmark	.1692	5.9100
France	.2241	4.4630
Germany	.5202	1.9223
Italy	001093	914.50
Japan	.004678	213.75
Mexico	.04316	23.17
Netherlands	.4793	2.0865
Switzerland	.5769	1.7333
U.K.	2.3645	.4229

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The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, DECEMBER 1, 1980
VOLUME XVII, NUMBER 48

Housing Costs Boost CPI

If it's not one thing—it's another. While food price increases slowed in October, and most energy prices actually declined, housing costs shot up, pushing up consumer prices one per cent, matching September's rise. Although the advance in food prices slowed to less than one-half of September's 1.6 per cent increase, as beef and vegetable prices dropped, that encouraging sign was more than offset by accelerating housing costs. Prices of apparel and upkeep rose 0.5 per cent following September's 1.3 per cent increase, reflecting earlier-than-usual markdowns as retailers tried to move out inventory. Energy prices declined and currently stand only 3.1 per cent above prices six months ago.

The major culprit behind October's jump in consumer prices was the 1.3 per cent rise in the housing component. A 1.9 per cent advance in mortgage costs and a 1.5 per cent increase in housing prices contributed to the 3.8 per cent rise in the costs of financing a home. Although mortgage commitment rates have been going up since June, closing rates, which are incorporated in the index, continued to decline until September. Since the BLS measures mortgage rates with a lag, last month's rise was the first after three months of descent which totalled 11.4 per cent. However, the full effects of the runup in mortgage rates will probably not be felt until early 1981, reflecting mortgage rate increases posted since early fall.

Food Prices Take A Break . . .

Food prices are the most visible aspect of inflation due to their direct effect on everyone, but they hit middle- and low-income groups hardest. During the first half of 1980, low food prices moderated the rate of inflation, but during the third quarter they were the major propellant behind inflation. Accounting for about one-fifth of the retail basket of goods and services in the CPI, food prices advanced by a hefty 6.4 per cent in the past four months or 20.4 per cent at an annual rate, paced by a 10.8 per cent advance in meat prices, mainly pork and poultry.

Not unexpectedly, however, the price of beef declined in October by 1.6 per cent, as farmers cut inventories to reduce feeding costs. Feed grains were especially hard hit by the severe drought and heat last summer. This year's agricultural crop was substantially reduced and yields per acre declined by 12 per cent. The subsequent decline in production drove prices up sharply. On July 1, a bushel of corn sold for about $2.75, while last week it was about $3.45. Similarly, soybeans were $6.54 per bushel, and now they sell at close to $9.00, while the price of oats shot up by 30 per cent to $2.21 per bushel.

Soaring costs of these important feed grains, deteriorating grazing conditions, as many pastures dried up, along with other rising costs of production—most importantly interest rates—had a devastating effect on the production of livestock in general and beef in particular. As noted several months ago (Financial Digest—August 11, 1980) ranchers could not afford this expense and thus slaughtered many animals prematurely, sending larger quantities of meat to market, temporarily depressing retail prices. This clouded the longer term outlook as inventories were cut to levels substantially lower than planned, thus assuring sharply higher prices next year.

Continued large slaughter will put a lid on price increases for the rest of this year and early next year. However, reduced marketings of cattle will strengthen prices starting in the second quarter. Meat supplies will be well under year-earlier levels, as ranchers attempt to rebuild herds from the unexpectedly large depletion.

. . . But It May Be Only Temporary

Pork prices recorded a smaller advance reflecting larger numbers of hogs being slaughtered, as is usual during the fourth quarter. Demand for pork also slowed as a result of some substitution of beef—especially such cheaper cuts as hamburger—for pork, reflecting sharply rising prices of pork during earlier months. Prices slowed to a 2.5 per cent rate of rise from 5.7 per cent in August and 5.0 per cent in September.

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Pork prices are expected to shoot up as hog producers curtail their breeding inventories to avoid financial losses such as those suffered during the first half of the year. On June 1, breeding inventories were eight per cent below a year ago, and by September 1 they were reduced by another five per cent.

Poultry prices continued their rapid ascent in October—4.1 per cent—aided by sharply higher prices of turkeys during this holiday season. Significant reductions in summer slaughter of poultry cut supplies from the abundant levels prevailing during the first half of the year, when production costs outpaced revenues and farmers lost money on every pound sold. Production of broilers declined by three per cent during the third quarter with a two per cent intentional cut and a one per cent contraction due to weather induced bird losses and fewer egg hatchings. Higher retail prices for poultry are expected in 1981 despite higher broiler and turkey supplies as total meat supplies decline and continued switching to less expensive poultry is expected to occur.

Prices of fresh fruits dropped by 1.3 per cent as apples and citrus crops were harvested. Also, seasonally large supplies of vegetables depressed

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 11/19/80	S Change Since	
		Week Ago	Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	129.045	– .554	+ 4.778
Loans to Depository Inst.	1.979	– .088	+ .115
Float	5.031	+ .693	– 2.182
Total Reserve Bank Credit	142.565	– .687	+ 4.057
Treasury Deposits with Federal Reserve Banks	3.468	+ .406	+ .253
Currency Outside Banks	120.995	+ .743	+ 9.296
Member Bank Reserves:			
Required	39.660	– 2.026	– 3.597
Excess (Deficiency)	.653	+ .249	+ .548
Total Reserves Held	40.313	– 1.777	– 3.049
Net Borrowed Reserves	1.230	– .337	– .379
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	88.749	+ 2.357	+11.712
		% Change Since	
Monetary Aggregates†		Three Months Ago*	Year Ago
M-1A (11/12/80)	390.2	+ 12.0‡	+ 5.5‡
M-1B (11/12/80)	415.5	+ 14.5‡	+ 7.3‡
M-2 (October '80)	1,653.3	+ 10.8	+ 9.5
L (August '80)	2,271.8	+ 10.0	+ 9.2

†Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 11/28/80	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	13.90%	13.75%	13.00%
* Federal Agencies	15.35	14.90	13.67
* Project Notes—Taxfree (46% Taxable Equivalent)	11.48	15.18	15.18
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	17.15	16.25	

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	15.75%	Dec.	16.90%
15- 29 days	16.50	Jan.	16.90
30- 59 days	15.00	Feb.	16.80
60-179 days	14.75	Mar.	16.55
180-270 days	14.25	Apr.	16.15
		May	15.30

‡Industrial Paper—Prime			
30- 89 days	16.75%	†Federal Funds Effective Rate	19.00%
90-120 days	16.50		

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'80	$ 2,587	$ 2,521	$ 2,397
Gross National Product (1972 Dollars)*	3rd Q'80	$ 1,412	$ 1,409	$ 1,433
Percent Change, Annual Rate	3rd Q'80	0.9%	– 9.6%	3.1%
Change in Consumer Prices (all urban consumers)*	Oct '80n	12.0%	12.0%	12.0%
Change in Producer Prices*	Oct '80	9.6%	– 2.4%	13.2%
Civilian Employment (Thousands of Persons)†	Oct '80	97,176	97,207	97,474
Unemployment as % of Civilian Labor Force†	Oct '80	7.6%	7.5%	5.9%
Personal Income*	Oct '80	$ 2,190	$ 2,167	$ 1,981
Leading Indicators Composite Index (1967=100)†	Sept '80	133.6	130.5	140.1
Industrial Production Index (1967=100)†	Oct '80	146.0	143.7	152.7
Net Change in Consumer Installment Credit†	Sept '80	$ 1.45	$ 0.02	$ 4.45
U.S. Merchandise Trade Balance†	Sept '80	–$ 0.76	–$ 0.13	–$ 2.58
Plant and Equipment Expenditures*	4th Q'80	$193.17(a)	$195.54(a)	$186.95
Private Housing Starts (Thousands of Units)*	Oct '80	1,569	1,545	1,710
New Construction Expenditures*	Sept '80	$ 222.0	$ 215.1	$ 235.3
Total Business Inventories†	Sept '80	$ 454.5	$ 452.0	$ 418.5
Total Business Sales†	Sept '80	$ 317.6	$ 308.0	$ 296.8

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

prices as the fall crop entered the market. However, production of many vegetables including potatoes is substantially lower than a year ago, so this price break is only temporary.

Higher grain and livestock prices will increase costs for food processors and retailers. They had benefited during the first half of this year from declining commodity prices which helped to offset escalating nonfood costs associated with processing and distribution. Recessionary pressures, however, have slowed the rise in these costs so far in the second half as packaging costs have decreased and gains in energy costs slowed substantially. In the fourth quarter of 1980, food price increases will be mainly attributed to higher farm values including the skyrocketing price of sugar. In October, food manufacturers paid 7.4 per cent more for their food and nonfood supplies than in September, and 31 per cent more than a year ago. This will boost prices of processed foods at retail significantly in the near future.

Buying Power Dips—Slightly

The steep hike in inflation has sharply eroded the purchasing power of consumers. Accompanying the CPI report was an announcement that real spendable

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (11/12/80)	103,078	+ 2,603	+11,394
New York City (11/12/80)	25,428	+ 1,045	+ 6,378
Commercial Paper (11/12/80)	126,656	+ 2,373	+16,396

Bank Loans

(Millions of Dollars)

Weekly Reporting Large Commercial Banks	**Commercial and Industrial Loans** Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/12/80)	169,628	+ 463	+15,631
New York City (11/12/80)	49,831	+ 238	+ 4,290

	Total Loans Gross Adjusted Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/12/80)	418,254	+ 707	+25,993
New York City (11/12/80)	97,042	– 975	+ 8,550

Financial Markets

	Friday 11/28/80	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	15.14%	+ .14	+ 3.30
180-Day Bills†	15.42	+ .29	+ 3.28
Longest Bills†	14.90	+ .31	+ 2.97
Recent Issues:			
$12\frac{1}{8}$s 10/31/82	13.87	– .01	
$12\frac{1}{8}$s 9/30/84	13.39	+ .11	
13s 11/15/90	12.68	– .44	
$12\frac{3}{4}$s 11/15/10	12.29	– .31	
Municipals:			
Bond Buyer–20 Bond Index* (11/26/80)	9.62%	+ .12	+ 2.36
Blue List Total ($ Million)	$ 876	+ $ 44	+ $ 193
30-Day Visible Supply ($ Million)	$2,014	+ $298	+ $ 370
Total	$2,890	+ $342	+ $ 563
Corporates:			
Moody's Aa Composite (11/25/80)	13.40%	+ .12	+ 2.34
Money Mgr.–30-Day Supply ($ Million)	$4,418	– $214	+ $3,569
Stocks:			
Dow-Jones Averages:			
Industrials	993.34	+ 3.41	+ 170.99
Transportation	425.68	+ 12.08	+ 177.19
Utilities	116.94	+ .73	+ 9.33
65 Stocks	388.87	+ 4.72	+ 94.53
Standard and Poor's 500 Stocks	140.14	+ 1.03	+ 33.98
N.Y.S.E. Composite Index	81.02	+ .85	+ 20.85
N.Y.S.E. Avg. Daily Vol. for Week (000's)	53,272	–10,865	+ 13,886

* 46% Taxable equivalent 17.81%.

† Bond equivalent.

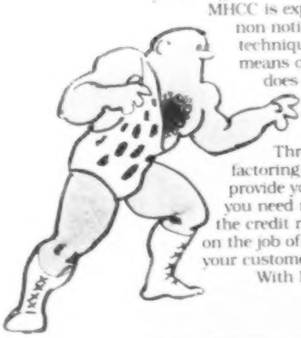
International Rates

	Friday 11/28/80	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	18.50%	17.00%
1 month	18.37	17.00
3 month	18.12	16.94
6 month	17.00	16.19
1 year	15.50	15.06
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	12.76%	13.05%
Long Term (7 to 15 yrs.)	12.67	13.15

FOREIGN EXCHANGE SPOT RATES New York Opening (11/28/80)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.03229	30.97
Canada	.8431	1.1861
Denmark	.1692	5.9090
France	.2238	4.4675
Germany	.5192	1.9260
Italy	.001092	915.30
Japan	.004615	216.70
Mexico	.04314	23.18
Netherlands	.4790	2.0875
Switzerland	.5746	1.7403
U.K.	2.3590	.4239

earnings declined. However, the picture may not be as bad as it looks. Real spendable earnings are average weekly earnings of a production worker with three dependents reduced by Social Security and Federal income taxes. They dropped by 0.6 per cent in October and stood six per cent below a year ago. Furthermore, this measure of purchasing power has not improved at all in the past 20 years.

Although this statistic is widely used, it is misleading as it grossly understates consumers' buying power. For one thing, it takes into account only heads of households, disregarding the increasing trend toward multi-income families. Second, many heads of households are now women who have recently entered the labor force and thus are making lower salaries than men. Finally, spendable earnings are deflated by the CPI, which is not a true measure of the cost of living. By contrast, another measure of buying power—total personal incomes minus taxes and inflation as measured by the PCE deflator—has more than doubled during this same time span. H



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and Business Indicators

MONDAY, DECEMBER 8, 1980
VOLUME XVII, NUMBER 49

Little Holiday Cheer . . .

Christmas 1980 finds retail trade in a depressed state. Rising interest rates are adding to already existing pressures adversely affecting both consumers and retailers. A Christmas shopping season shorter this year by five days, coupled with earlier than usual markdowns and other promotional campaigns, will probably cut into dollar volume in this important selling period. Profitability will be further dampened by the substantially higher costs of carrying inventory, forcing retailers to monitor their stocks carefully.

Meanwhile, consumers' discretionary incomes are being squeezed as an increasingly larger share of their wages and salaries is needed for such basic necessities as food, maintaining and financing a home and for gasoline. Prices of home heating fuel have now begun to increase and home owners are filling up their tanks for the first time during this heating season.

In contrast to these gloomy signs, the Conference Board reported that consumer confidence has improved and the index of buying plans rebounded in November after a decline during the previous month. The Christmas season got off to a good start, but retailers have noticed a change in consumer attitudes. Shoppers are being selective and are willing to spend more time and effort searching for good value. They are also more conservative, looking for practical, quality merchandise and shying away from trendy or frivolous items. Higher consumer debt burdens and a decreasing savings rate will apparently become consumers' new reality, but sales of big-ticket durables will be hampered for some time because of the slump in new-home construction and the low rate of house transfers.

. . . Among The Nation's Retailers

The resurgence in interest rates has again put pressure on the automobile industry—one of the sectors that was badly hit by the severe downturn in economic activity during the second quarter. Sales of domestic automobiles continue to lag significantly behind last year's sluggish rate. Despite some strength registered at the beginning of the 1981 model year—as the new smaller and fuel-efficient cars were introduced—sales subsequently retreated. They ran at a seasonally adjusted 5.8 million unit rate during the last ten days of November, matching last spring's lows.

Both car dealers and buyers have been hit by rising prices and higher interest rates. The increased costs of carrying inventory have forced dealers to hold fewer automobiles in stock than usual, thus risking the possibility of losing sales. While a 60-day supply is considered normal at this time of the year, trade sources report that automobile dealers have about 56 days of inventory at recent sales rates. For the consumer, higher finance charges translate into higher monthly payments, swelling further the already high price of new automobiles.

The Locomotive . . .

It was not long ago that proponents of the "locomotive" theory of economic recovery argued that coordinated expansionary economic policies by the United States, West Germany, the United Kingdom and Japan, among others, could pull the rest of the world toward recovery and sustained growth. Although this theory has not been tested (due mainly to fears of increasing inflation and the difficulty of coordinating national goals), it is generally agreed that these economies exert a powerful influence on the world economy. It is, therefore, a bad omen for the near future that three of the four principal nations of the free world are either in recession or in very lethargic recoveries.

Japan is the exception. Although experiencing lower than usual real economic growth, Japan is still relatively prosperous compared with other major industrial economies. Barring strong protectionist action against its exports, Japan is likely to weather the recession without difficulty. As for the United States, whether or not the recession has ended is still a widely debated question. Whatever the case, it is generally agreed that 1981 will be a slow-growth year at best. In Europe, however, evidence of a slump is less ambiguous.

. . . Is Slowing . . .

Weakness in the West German economy is pervasive. Real GNP growth this year is expected to

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reach barely two per cent after 4.4 per cent growth in 1979. In the second quarter of this year, real GNP dropped precipitately by 7.9 per cent, at an annual rate, after rising 8.9 per cent in the first quarter. In 1981 real growth is expected to be between zero and one per cent, possibly with one or two negative quarters in the first half of the year.

Industrial production is down as well. In September it fell 2.5 per cent (seasonally adjusted) below the previous month. Steel and automobile production have been especially hard hit. In the first nine months of 1980, steel production was down 2.5 per cent from the same period of last year. Automobile production was down 13.9 per cent in October compared with the same month last year.

Retail sales in West Germany have suffered, falling by 0.5 per cent (seasonally adjusted) in September from the previous month. They were down 4.7 per cent from the same month a year ago. New car registrations in October were 3.1 per cent below the same month in 1979. Consequently, new orders to industrial concerns declined by 3.3 per cent in September from the same month one year ago. Capacity utilization was at 80 per cent in September, down from 86 per cent in March.

Unemployment, though low, is rising as economic activity eases. It had declined from 4.5 per cent in

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since	
Reserve Bank Credit	**11/26/80**	Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	130.233	+ 1.188	+ 6.780
Loans to Depository Inst.	2.215	+ .236	+ .194
Float	3.228	– 1.879	– 4.320
Total Reserve Bank Credit	142.142	– .499	+ 3.950
Treasury Deposits with Federal Reserve Banks	2.946	– .522	– .152
Currency Outside Banks	121.023	+ .023	+ 9.313
Member Bank Reserves:			
Required	39.904	– .113	– 2.983
Excess (Deficiency)	.365	– .008	+ .230
Total Reserves Held	40.269	– .121	– 2.753
Net Borrowed Reserves	1.735	+ .225	– .015
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	90.236	+ 1.487	+15.763

		% Change Since	
Monetary Aggregates †		Three Months Ago*	Year Ago
M-1A	389.3	+ 9.8‡	+ 5.8‡
M-1B	414.3	+ 12.4‡	+ 7.8‡
M-2 (October '80)	1,653.6	+ 11.4	+ 9.5
L (August '80)	2,269.3	+ 9.9	+ 9.0

† Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 12/5/80	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	15.70%	14.80%	13.50%
* Federal Agencies	16.45	15.67	15.00
* Project Notes–Taxfree (46% Taxable Equivalent)	13.89	15.56	15.00
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market	16.50	16.88	

‡Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	17.50%	Jan.	18.00%
15- 29 days	17.75	Feb.	18.00
30- 59 days	18.00	Mar.	17.50
60- 89 days	15.00	Apr.	17.40
90-270 days	14.00	May	17.00
		Jun.	15.70

‡Industrial Paper–Prime			
30- 89 days	17.00%	† Federal Funds	
90-120 days	17.00	Effective Rate	19.00%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'80	$ 2,587	$ 2,521	$ 2,397
Gross National Product (1972 Dollars)*	3rd Q'80	$ 1,412	$ 1,409	$ 1,433
Percent Change, Annual Rate	3rd Q'80	0.9%	– 9.6%	3.1%
Change in Consumer Prices (all urban consumers)*	Oct '80	12.0%	12.0%	12.0%
Change in Producer Prices*	Nov '80n	7.2%	9.6%	14.4%
Civilian Employment (Thousands of Persons) †	Nov '80n	97,396	97,176	97,608
Unemployment as % of Civilian Labor Force †	Nov '80n	7.5%	7.6%	5.8%
Personal Income*	Oct '80	$ 2,190	$ 2,167	$ 1,981
Leading Indicators Composite Index (1967=100) †	Oct '80n	136.3	135.1	137.8
Industrial Production Index (1967=100) †	Oct '80	146.0	143.7	152.7
Net Change in Consumer Installment Credit †	Sept '80	$ 1.45	$ 0.02	$ 4.45
U.S. Merchandise Trade Balance †	Oct '80n	–$ 0.97	–$ 0.76	–$ 2.36
Plant and Equipment Expenditures*	4th Q'80	$193.17(a)	$195.54(a)	$186.95
Private Housing Starts (Thousands of Units)*	Oct '80	1,569	1,545	1,710
New Construction Expenditures*	Oct '80n	$ 225.0	$ 224.1	$ 239.9
Total Business Inventories †	Sept '80	$ 454.5	$ 452.0	$ 418.5
Total Business Sales †	Sept '80	$ 317.6	$ 308.0	$ 296.8

* Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. a-Anticipated.

January 1980 to a low of 3.3 per cent in May, but it rose again to 3.8 per cent in October. In August, West Germany suffered a merchandise trade deficit for the first time in fifteen years. The $74 million of red ink contributed to an expected current account deficit for 1980 of over $15 billion.

The inflation rate, though falling (5.1 per cent in October over the same month in the previous year), is still the primary concern of the West German government. In an effort to keep the mark strong (and, thus, reduce the dollar cost of oil and other imports), interest rates have been kept at high levels with a consequent effect on growth. It is apparent that, whatever the merits of the "locomotive" theory, the world can expect little help from the West German economy in 1980 or 1981.

. . . The Rest Of The World

The United Kingdom entered recession during 1979 largely as the result of government policies aimed at reducing very high inflation and fundamentally restructuring the British economy. High interest rates and tight credit policies have kept the pound sterling strong but have also made the U.K.'s traditional exports less and less competitive. This fact, combined with continuing labor unrest, have created a difficult environment for British industry in spite of the Thatcher government's goal of restructuring the industrial sector toward free

Short Term Paper Outstanding
(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (11/19/80)	104,777	+ 1,968	+11,576
New York City (11/19/80)	26,010	+ 582	+ 6,203
Commercial Paper (11/19/80)	126,055	– 601	+15,037

Bank Loans
(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/19/80)	169,472	– 155	+15,640
New York City (11/19/80)	49,754	– 77	+ 4,439

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/19/80)	417,925	– 316	+27,463
New York City (11/19/80)	97,876	+ 834	+10,468

Financial Markets

	Friday 12/5/80	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	16.60%	+ 1.46	+ 4.45
180-Day Bills†	16.00	+ .58	+ 3.57
Longest Bills†	15.10	+ .20	+ .08
Recent Issues:			
$13\frac{7}{8}$s 11/30/82 (When Issued)	14.34	NA	
$12\frac{1}{8}$s 9/30/84	13.57	+ .18	
13s 11/15/90	12.86	+ .18	
$12\frac{3}{4}$s 11/15/10	12.30	+ .01	
Municipals:			
Bond Buyer–20 Bond Index* (12/4/80)	9.84%	+ .22	+ 2.67
Blue List Total ($ Million)	$1,064	+ $188	+ $ 296
30-Day Visible Supply ($ Million)	$2,402	+ $388	+ $1,355
Total	$3,466	+ $576	+ $1,651
Corporates:			
Moody's Aa Composite (12/4/80)	13.63%	+ .23	+ 2.54
Money Mgr.–30-Day Supply ($ Million)	$3,938	– $480	+ $3,119
Stocks:			
Dow-Jones Averages:			
Industrials	956.23	– 37.11	+ 123.04
Transportation	398.28	– 27.40	+ 143.99
Utilities	114.24	– 2.70	+ 6.05
65 Stocks	371.78	– 17.09	+ 73.12
Standard and Poor's 500 Stocks	134.03	– 6.11	+ 26.51
N.Y.S.E. Composite Index	77.16	– 3.86	+ 15.60
N.Y.S.E. Avg. Daily Vol. for Week (000's)	40,582	–12,690	+ 4,172

* 46% Taxable equivalent 18.22%.

† Bond equivalent.

International Rates

	Friday 12/5/80	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	19.25%	18.50%
1 month	19.50	18.37
3 month	19.13	18.12
6 month	17.69	17.00
1 year	16.00	15.50
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	13.50%	12.76%
Long Term (7 to 15 yrs.)	13.00	12.67

FOREIGN EXCHANGE SPOT RATES

New York Opening (12/5/80)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.03179	31.46
Canada	.8364	1.1956
Denmark	.1664	6.0080
France	.2203	4.5380
Germany	.5101	1.9605
Italy	.001076	929.25
Japan	.004701	212.70
Mexico	.04308	23.21
Netherlands	.4704	2.1260
Switzerland	.5656	1.7680
U.K.	2.3415	.4271

enterprise and away from government subsidies and control.

The success of the Thatcher program has been mixed. Inflation, which was running at a 22 per cent annual rate last summer, was down to a 15.5 per cent rate in October. Over the last six months the retail price index has risen at an annual rate of less than ten per cent. The rate of wholesale price increases has been slowing as well. At the same time unemployment has risen sharply, reaching 8.4 per cent in November, the highest level since before World War II. One year ago it was 5.3 per cent. Unemployment benefits have placed an enormous strain on the government's financial resources contributing to a rise in the public sector borrowing requirement (PSBR). A reduction in the PSBR is a major element in the government's anti-inflationary policies.

Output is falling. Industrial production declined by 3.4 per cent in the third quarter from the previous quarter and was nine per cent lower than in the third quarter of last year. Output in September was 9.3 per cent below the level of September 1979. Total output, seasonally adjusted, fell 1.9 per cent in the third quarter of this year from second quarter levels which, in turn, was 1.8 per cent below that of the first quarter. Total output of the U.K. economy is now six per cent below the peak reached in the second quarter of 1979.

In spite of the erosion of the U.K.'s trade competitiveness, the country's external position is good, largely due to a recession-related decline in imports and exports of North Sea oil. A current account surplus of as much as $2.3 billion is expected this year and perhaps next.

No recovery of the U.K. economy is in sight before the second half of 1981 and even then no real growth is expected for that year. Real GDP is expected to show a 2.3 per cent decline this year and perhaps a two per cent decline next year. With both the West German and U.K. economies expected to have sub-par performances during 1981, it is probable that the rest of the EEC countries—France, Italy, etc.—will also show little or no real growth. And with lessened demand for imports and exports among themselves and outside the EEC, the economic malaise in 1981 will undoubtedly be widespread.

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12/16/80

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The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, DECEMBER 15, 1980 VOLUME XVII, NUMBER 50

Stepping Hard On The Monetary Brakes . . .

One result of the continuing upward spiral of both credit demands and interest rates, together with the increasingly restrictive nature of monetary policy, has been the emergence of a credit squeeze similar to that experienced earlier this year. Although such credit developments normally occur near business cycle peaks, when sectors of the "real" economy have depleted their own internal cash sources and require increasing amounts of external finance, ongoing high rates of inflation continue to swell credit demands despite the weak economy, prompting the Federal Reserve to step hard on the monetary brakes.

Perhaps the most important element in the unfolding credit squeeze is the restrictive nature of monetary policy. This reflects the continuing attempts by the Federal Reserve to slow the growth of the money supply and, ultimately, subdue the rate of inflation. Interest rates have jumped sharply in recent months, unusual during a period that had generally been considered the initial phase of an economic recovery. Rates typically fall during the early stages of a recovery, as a result of existing slack in the real economy as well as the banking system, limited cyclical improvements in the inflation rate statistics as productivity rises relative to wages and an accommodative monetary policy posture. Although the appearance of a credit squeeze at the current stage of the business cycle would be unusual, it is probably not unexpected. Monetary policy stringency now seems to be the only sustained effort by the public authorities to slow the rate of inflation and brake the sharp deterioration of inflation expectations.

One indication of the tighter monetary policy stance which has emerged is the steeply inverted yield curves which now exist in almost all sectors of the financial markets. The U.S. government security yield curve, for example, is sharply inverted, with a negative 500 basis point spread now prevailing between three-month Treasury bill rates and 30-year bonds. Seldom has such a negatively sloped yield curve appeared without a subsequent recession. Put simply, borrower and investor expectations, and actions, clearly point to a secondary dip in the economy in early 1981.

Other yield spread relationships are also symptomatic of spreading illiquidity in the financial system. These include a prime rate well above mortgage and consumer lending rates, presaging further bank restrictions on loans for housing and consumer spending in the near future and commercial paper rates that are well in excess of new long-term triple-A utility yields. Similarly, short-term Treasury bill rates are far above returns available on regular passbook deposit accounts and even more attractive than returns prevailing on six-month money market certificates and 30-month small saver certificates at the nation's thrift institutions. This suggests renewed disintermediation at these institutions in the near future or, at the very least, weak deposit growth followed by further constraints on mortgage availability.

. . . Ensures That Another Credit Squeeze . . .

But steeply inverted yield spread relationships are not the only indicators of emerging crunch conditions. Short-term business loan demand has soared, despite sharp increases in the prime rate and commercial paper rates. Between October 29 and November 26, for example, commercial and industrial loans outstanding, adjusted for seasonal variation, expanded at a 24 per cent annual rate and have advanced at a more than 18 per cent annual rate during the past three months. Outstanding commercial paper for nonfinancial corporations has also begun to rise again, increasing at an almost eight per cent seasonally-adjusted annual rate during the four weeks ending November 26.

Although the sharp surge of bank loans partially reflects the more aggressive pricing posture adopted by the commercial banks in light of the competitive threat posed by the paper market, their recent rise is pressing against bank liquidity positions. This, in turn, has compelled banks to step up their purchases of funds and push short-term interest rates even higher. Plainly, soaring short-term loan demand and rising business loan rates are indicative of the later stages of economic expansion rather than the onset of a sustained economic recovery.

Because the prime rate now stands above mortgage and consumer installment loan rates, some banks have begun to ration credit to households and small

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350 Park Avenue, New York, NY 10022

businesses. First, even with the introduction of new variable rate mortgage instruments, the fixed-rate nature of most mortgage loans has made them increasingly unattractive for the loan portfolios of banks and thrift institutions, especially in relation to variable-rate business loans. Second, the combination of interest rate usury ceilings in some states and rising delinquency and bankruptcy rates has increased the relative attractiveness of business to consumer loans even further, limiting the volume of new credit extended to the household sector. The result: A squeeze on household spending in early 1981, but with sufficient credit for business unless even sharper restrictions are imposed by the central bank.

Together with availability, the affordability of new mortgage and consumer loans has been seriously affected by the upward reversal of interest rates. Among the first to be impacted: the credit sensitive housing and automobile industries. New home sales have declined 15 per cent since August, and domestic automobile sales remain sluggish despite the introduction of the new fuel-efficient 1981 models. The higher prices of these items, together with increased loan rates, have already impaired the ability of consumers to meet average monthly payments, further deterring new purchases and sure to exacerbate rising delinquency rates and personal bankruptcies.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 12/3/80	$ Change Since	
Reserve Bank Credit		Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	128.103	– 2.130	+ 2.233
Loans to Depository Inst.	2.142	– .073	+ .323
Float	5.645	+ 2.436	+ .603
Total Reserve Bank Credit	142.641	+ .518	+ 4.759
Treasury Deposits with Federal Reserve Banks	2.845	– .101	+ .250
Currency Outside Banks	120.909	– .118	+ 9.633
Member Bank Reserves:			
Required	39.910	+ .006	– 3.478
Excess (Deficiency)	.965	+ .619	+ .717
Total Reserves Held	40.875	+ .625	– 2.761
Net Borrowed Reserves	1.067	– .687	– .403
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	90.562	+ .326	+14.560

		% Change Since	
Monetary Aggregates †		Three Months Ago*	Year Ago
M-1A	388.7	+ 9.9‡	+ 5.8‡
M-1B	413.9	+ 12.4‡	+ 7.9‡
M-2 (October '80)	1,653.6	+ 10.9	+ 9.5
L (September '80)	2,296.0	+ 12.0	+ 8.8

† Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 12/12/80	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	16.65%	15.37%	13.75%
* Federal Agencies	19.41	17.00	15.81
* Project Notes—Taxfree (46% Taxable Equivalent)	14.81	16.20	15.28
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	20.50	18.50	

‡ Finance Company Paper—Prime	
5- 14 days	19.87%
15- 29 days	19.90
30- 59 days	19.87
60-179 days	17.00
180-270 days	15.00

‡* Bankers' Acceptances	
Jan.	20.00%
Feb.	20.00
Mar.	19.50
Apr.	19.00
May	18.00
Jun.	17.25

‡ Industrial Paper—Prime	
30- 89 days	20.50%
90-120 days	20.00

† Federal Funds Effective Rate 19.50%

‡ Discount basis.

* Subject to availability.

† Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

		Latest Period or End of Period	Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'80	$ 2,587	$ 2,521	$ 2,397
Gross National Product (1972 Dollars)*	3rd Q'80	$ 1,412	$ 1,409	$ 1,433
Percent Change, Annual Rate	3rd Q'80	0.9%	– 9.6%	3.1%
Change in Consumer Prices (all urban consumers)*	Oct '80	12.0%	12.0%	12.0%
Change in Producer Prices*	Nov '80	7.2%	9.6%	14.4%
Civilian Employment (Thousands of Persons) †	Nov '80	97,396	97,176	97,608
Unemployment as % of Civilian Labor Force †	Nov '80	7.5%	7.6%	5.8%
Personal Income*	Oct '80	$ 2,190	$ 2,167	$ 1,981
Leading Indicators Composite Index (1967=100) †	Oct '80	136.3	135.1	137.8
Industrial Production Index (1967=100) †	Oct '80	146.0	143.7	152.7
Net Change in Consumer Installment Credit †	Oct '80n	$ 1.46	$ 1.45	$ 2.19
U.S. Merchandise Trade Balance †	Oct '80	–$ 0.97	–$ 0.76	–$ 2.36
Plant and Equipment Expenditures*	1st Q'81n	$310.59(a)	$193.17(a)	$291.89
Private Housing Starts (Thousands of Units)*	Oct '80	1,569	1,545	1,710
New Construction Expenditures*	Oct '80	$ 225.0	$ 224.1	$ 239.9
Total Business Inventories †	Sept '80	$ 454.5	$ 452.0	$ 418.5
Total Business Sales †	Sept '8[illegible]	$ 317.6	$ 308.0	$ 296.8

* Seasonally adjusted annual rate.

† Seasonally adjusted.

n-Newly reported figure.

a-Anticipated.

. . . Will Dampen Activity Again

Finally, the climb in interest rates and the instability in the long-term bond markets have abruptly interrupted the restrengthening of household and business balance sheets. The resumption of heavy, short-term business borrowings, at higher cost, has resulted in a reversal of the process of refunding short-term debt in the long-term markets as well as reducing their debt service burdens. The restructuring of household balance sheets also remains incomplete. They continue to deteriorate as a result of the ongoing depreciation of real purchasing power due to inflation, still very high levels of existing consumer debt and the need to replenish extremely depleted savings. For despite some improvements, many key indicators of household liquidity remain relatively weak. At almost 16.5 per cent, for example, the installment debt-to-disposable income ratio is well above the comparable stage of any other economic contraction.

On balance, strains developing, and already existing, in the financial system may make certain that the real economy will once again begin to contract. While the downturn will be initially concentrated in the credit-sensitive housing and automobile sectors, it will eventually spread to other areas such as inventory investment and capital spending.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (11/26/80)	107,452	+ 2,675	+13,864
New York City (11/26/80)	26,839	+ 829	+ 6,729
Commercial Paper (11/26/80)	125,930	– 125	+14,637

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/26/80)	171,451	+ 1,980	+18,565
New York City (11/26/80)	50,458	+ 704	+ 5,668

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (11/26/80)	420,190	+ 2,363	+30,184
New York City (11/26/80)	98,145	+ 366	+11,425

Financial Markets

	Friday 12/12/80	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	17.45%	+ .85	+ 4.32
180-Day Bills†	16.74	+ .74	+ 3.36
Longest Bills†	15.30	+ .20	+ 2.73
Recent Issues:			
$13\frac{7}{8}$s 11/30/82	14.62	+ .28	
$12\frac{1}{8}$s 9/30/84	13.85	+ .28	
13s 11/15/90	13.20	+ .34	
$12\frac{3}{4}$s 11/15/10	12.70	+ .40	
Municipals:			
Bond Buyer–20 Bond Index* (12/11/80)	10.42%	+ .58	+ 3.16
Blue List Total ($ Million)	$ 888	+ $ 55	– $ 6
30-Day Visible Supply ($ Million)	$2,921	+ $519	+ $1,957
Total	$3,809	+ $574	+ $1,951
Corporates:			
Moody's Aa Composite (12/11/80)	14.25%	+ .62	+ 3.17
Money Mgr.–30-Day Supply ($ Million)	$3,463	– $475	+ $2,207
Stocks:			
Dow-Jones Averages:			
Industrials	917.15	– 39.08	+ 74.20
Transportation	381.24	– 17.04	+ 127.00
Utilities	111.47	– 2.77	+ 2.00
65 Stocks	357.29	– 14.49	+ 56.18
Standard and Poor's 500 Stocks	129.23	– 4.80	+ 20.31
N.Y.S.E. Composite Index	74.16	– 3.00	+ 11.81
N.Y.S.E. Avg. Daily Vol. for Week (000's)	56,501	+14,919	+ 19,173

* 46% Taxable equivalent 19.30%.

† Bond equivalent.

International Rates

	Friday 12/12/80	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	20.87%	19.25%
1 month	22.75	19.50
3 month	21.75	19.13
6 month	19.62	17.69
1 year	17.12	16.00
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	13.70%	13.50%
Long Term (7 to 15 yrs.)	13.30	13.00

FOREIGN EXCHANGE SPOT RATES

New York Opening (12/12/80)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.03083	32.43
Canada	.8312	1.2030
Denmark	.1617	6.1840
France	.2145	4.6610
Germany	.4957	2.0175
Italy	.001046	956.25
Japan	.004749	210.55
Mexico	.04308	23.21
Netherlands	.4566	2.1900
Switzerland	.5466	1.8295
U.K.	2.3085	.4332

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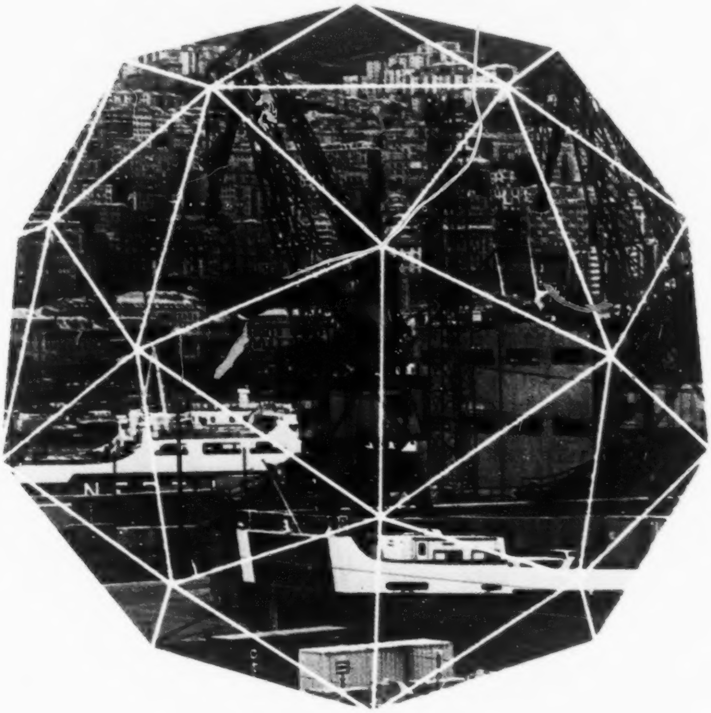

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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, DECEMBER 22, 1980

VOLUME XVII, NUMBER 51

Season's Greetings

Manufacturers Hanover Trust Company
350 Park Avenue, New York, NY 10022

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 12/10/80	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	127.790	− .313	+ 2.595
Loans to Depository Inst.	1.786	− .356	+ .497
Float	4.530	− 1.031	− 1.906
Total Reserve Bank Credit	141.303	− 1.254	+ 2.975
Treasury Deposits with Federal Reserve Banks	2.228	− .617	− .865
Currency Outside Banks	121.660	+ .747	+11.135
Member Bank Reserves:			
Required	39.193	− .717	− 3.947
Excess (Deficiency)	.310	− .571	− .056
Total Reserves Held	39.503	− 1.288	− 4.003
Net Borrowed Reserves	1.365	+ .214	+ .525
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	90.891	+ .329	+13.243

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M-1A	386.6	+ 7.5‡	+ 5.6‡
M-1B	412.4	+ 9.8‡	+ 7.7‡
M-2 (November '80)	1,668.8	+ 10.1	+ 10.1
L (September '80)	2,295.1	+ 12.4	+ 8.8

† Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 12/19/80	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	16.77%	16.49%	15.30%
* Federal Agencies	18.50	17.00	15.00
* Project Notes—Taxfree (46% Taxable Equivalent)	14.81	15.56	15.28
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	18.00	16.50	

‡ Finance Company Paper—Prime	
5- 14 days	19.38%
15- 29 days	20.00
30- 59 days	19.75
60-179 days	17.50
180-270 days	15.00

‡* Bankers' Acceptances	
Jan.	19.80%
Feb.	19.45
Mar.	18.40
Apr.	17.60
May	16.25
Jun.	15.45

‡ Industrial Paper—Prime	
30- 89 days	19.88%
90-120 days	19.00

† Federal Funds Effective Rate 20.13%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'80	$ 2,587	$ 2,521	$ 2,397
Gross National Product (1972 Dollars)*	3rd Q'80	$ 1,412	$ 1,409	$ 1,433
Percent Change, Annual Rate	3rd Q'80	0.9%	− 9.6%	3.1%
Change in Consumer Prices (all urban consumers)*	Oct '80	12.0%	12.0%	12.0%
Change in Producer Prices*	Nov '80	7.2%	9.6%	14.4%
Civilian Employment (Thousands of Persons) †	Nov '80	97,396	97,176	97,608
Unemployment as % of Civilian Labor Force †	Nov '80	7.5%	7.6%	5.8%
Personal Income*	Oct '80	$ 2,190	$ 2,167	$ 1,981
Leading Indicators Composite Index (1967=100) †	Oct '80	136.3	135.1	137.8
Industrial Production Index (1967=100) †	Nov '80n	148.5	146.5	152.3
Net Change in Consumer Installment Credit †	Oct '80	$ 1.46	$ 1.45	$ 2.19
U.S. Merchandise Trade Balance †	Oct '80	−$ 0.97	−$ 0.76	−$ 2.36
Plant and Equipment Expenditures*	1st Q'81	$310.59(a)	$297.30(a)	$291.89
Private Housing Starts (Thousands of Units)*	Nov '80n	1,555	1,561	1,522
New Construction Expenditures*	Oct '80	$ 225.0	$ 224.1	$ 239.9
Total Business Inventories †	Oct '80n	$ 457.3	$ 454.6	$ 422.7
Total Business Sales †	Oct '80n	$ 325.5	$ 318.3	$ 298.5

* Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. a-Anticipated.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (12/3/80)	107,400	− 50	+13,372
New York City (12/3/80)	26,655	− 182	+ 6,463
Commercial Paper (12/3/80)	127,233	+ 1,597	+17,128

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/3/80)	172,266	+ 865	+17,716
New York City (12/3/80)	51,105	+ 687	+ 5,507

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/3/80)	424,173	+ 4,063	+29,817
New York City (12/3/80)	99,756	+ 1,692	+11,174

Financial Markets

	Friday 12/19/80	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	15.62%	− 1.83	+ 3.21
180-Day Bills†	15.48	− 1.26	+ 2.91
Longest Bills†	14.43	− .87	+ 2.57
Recent Issues:			
$15\frac{1}{8}$s 12/31/82 (When Issued)	13.95	NA	
14s 12/31/84 (When Issued)	13.34	NA	
13s 11/15/90	12.64	− .56	
$12\frac{3}{4}$s 11/15/10	12.22	− .48	
Municipals:			
Bond Buyer–20 Bond Index* (12/18/80)	10.56%	+ .14	+ 3.95
Blue List Total ($ Million)	$ 754	−$ 134	+ $ 68
30-Day Visible Supply ($ Million)	$1,062	−$1,859	− $ 31
Total	$1,816	−$1,993	+ $ 37
Corporates:			
Moody's Aa Composite (12/18/80)	14.00%	− .25	+ 4.51
Money Mgr.–30-Day Supply ($ Million)	$3,363	−$ 100	+ $2,372
Stocks:			
Dow-Jones Averages:			
Industrials	937.20	+ 20.05	+ 132.19
Transportation	392.03	+ 10.79	+ 185.47
Utilities	115.70	+ 4.23	+ 17.46
65 Stocks	366.70	+ 9.41	+ 94.50
Standard and Poor's 500 Stocks	133.70	+ 4.47	+ 37.26
N.Y.S.E. Composite Index	76.86	+ 2.70	+ 23.24
N.Y.S.E. Avg. Daily Vol. for Week (000's)	50,548	− 4,953	+ 25,385

* 46% Taxable equivalent 19.56%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 12/19/80	Week Ago
Overnight	20.00%	20.87%
1 month	21.63	22.75
3 month	20.06	21.75
6 month	17.88	19.62
1 year	15.88	17.12
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	13.30%	13.70%
Long Term (7 to 15 yrs.)	13.15	13.30

FOREIGN EXCHANGE SPOT RATES

New York Opening (12/19/80)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.03125	31.995
Canada	.8345	1.1983
Denmark	.1641	6.0950
France	.2172	4.6040
Germany	.5025	1.9900
Italy	.001058	944.75
Japan	.004789	208.80
Mexico	.04306	23.22
Netherlands	.4623	2.1630
Switzerland	.5510	1.8150
U.K.	2.3250	.4301

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12/31/80

The Manufacturers Hanover Financial Digest

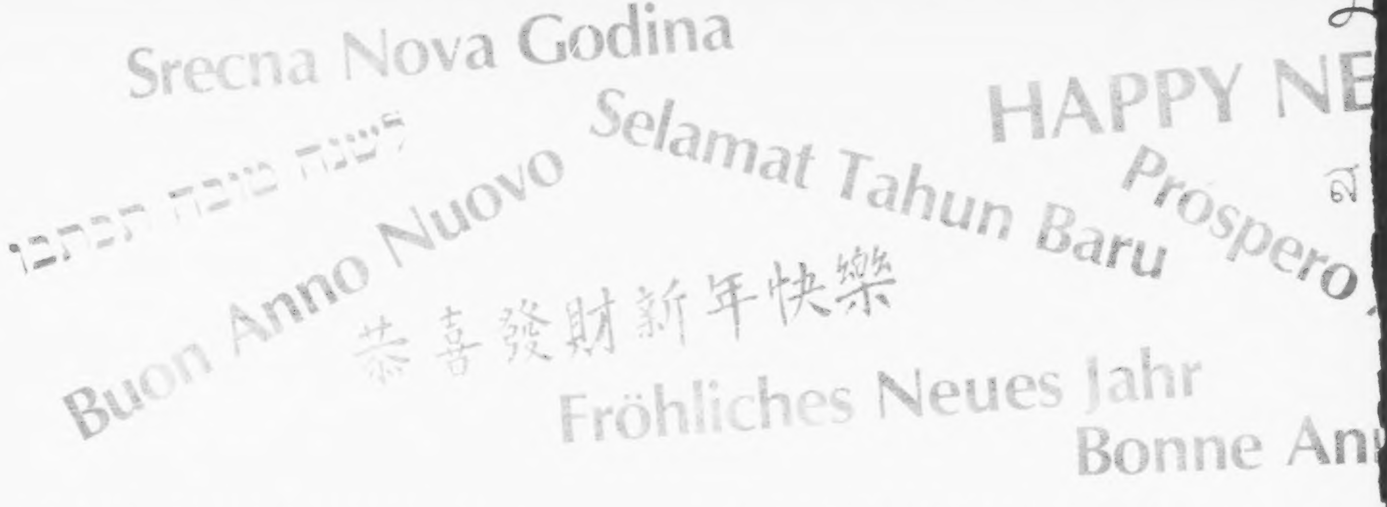
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, DECEMBER 29, 1980

VOLUME XVII, NUMBER 52

...and a HAPPY NEW YEAR to all!
1981

Manufacturers Hanover Trust Company
350 Park Avenue, New York, NY 10022



Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 12/17/80	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	130.203	+ 2.413	+ 4.312
Loans to Depository Inst.	1.505	− .281	− .181
Float	4.151	− .331	− 1.981
Total Reserve Bank Credit	143.912	+ 2.657	+ 4.855
Treasury Deposits with Federal Reserve Banks	2.784	+ .556	+ .144
Currency Outside Banks	121.999	+ .260	+10.381
Member Bank Reserves:			
Required	40.554	+ 1.361	− 3.139
Excess (Deficiency)	.435	+ .173	+ .283
Total Reserves Held	40.989	+ 1.534	− 2.856
Net Borrowed Reserves	.946	− .467	− .505
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	91.227	+ .336	+13.443

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M-1A (12/10/80)	386.6	+ 7.5‡	+ 5.6‡
M-1B (12/10/80)	412.4	+ 9.8‡	+ 7.7‡
M-2 (November '80)	1,688.8	+ 9.7	+ 10.1
L (September '80)	2,295.1	+ 12.4	+ 8.8

† Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 12/26/80	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	14.40%	13.77%	12.40%
* Federal Agencies	16.50	15.30	14.35
* Project Notes—Taxfree (46% Taxable Equivalent)	12.96	13.70	13.89
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	18.00	14.50	

‡ Finance Company Paper—Prime	
5- 14 days	16.00%
15- 29 days	18.00
30- 89 days	15.75
90-179 days	15.00
180-270 days	12.00

‡* Bankers' Acceptances	
Jan.	18.50%
Feb.	17.50
Mar.	16.40
Apr.	15.50
May	15.00
Jun.	14.50

‡ Industrial Paper—Prime	
30- 89 days	18.75%
90-120 days	17.00

† Federal Funds Effective Rate 17.50%

‡ Discount basis.

* Subject to availability.

† Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'80	$ 2,637	$ 2,565	$ 2,444
Gross National Product (1972 Dollars)*	3rd Q'80	$ 1,472	$ 1,463	$ 1,488
Percent Change, Annual Rate	3rd Q'80	2.4%	− 9.9%	4.1%
Change in Consumer Prices (all urban consumers)*	Nov '80n	12.0%	12.0%	12.0%
Change in Producer Prices*	Nov '80	7.2%	9.6%	14.4%
Civilian Employment (Thousands of Persons) †	Nov '80	97,396	97,176	97,608
Unemployment as % of Civilian Labor Force †	Nov '80	7.5%	7.6%	5.8%
Personal Income*	Nov '80n	$ 2,257	$ 2,233	$ 2,006
Leading Indicators Composite Index (1967=100) †	Oct '80	136.3	135.1	137.8
Industrial Production Index (1967=100) †	Nov '80	148.5	146.5	152.3
Net Change in Consumer Installment Credit †	Oct '80	$ 1.46	$ 1.45	$ 2.19
U.S. Merchandise Trade Balance †	Oct '80	−$ 0.97	−$ 0.76	−$ 2.36
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Private Housing Starts (Thousands of Units)*	Nov '80	1,555	1,561	1,522
New Construction Expenditures*	Oct '80	$ 225.0	$ 224.1	$ 239.9
Total Business Inventories †	Oct '80	$ 457.3	$ 454.6	$ 422.7
Total Business Sales †	Oct '80	$ 325.5	$ 318.3	$ 298.5

* Seasonally adjusted annual rate.

† Seasonally adjusted.

n-Newly reported figure.

a-Anticipated.

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Short Term Paper Outstanding
(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (12/10/80)	108,898	+ 1,498	+15,490
New York City (12/10/80)	26,657	+ 2	+ 6,548
Commercial Paper (12/10/80)	124,923	− 2,310	+13,929

Bank Loans
(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/10/80)	172,787	+ 527	+19,071
New York City (12/10/80)	51,780	+ 675	+ 6,433

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/10/80)	425,461	+ 1,284	+34,278
New York City (12/10/80)	100,452	+ 696	+13,363

Financial Markets

	Friday 12/26/80	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	15.12%	− .50	+ 2.60
180-Day Bills†	15.00	− .48	+ 2.26
Longest Bills†	13.90	− .53	+ 1.96
Recent Issues:			
15 1/8s 12/31/82	13.00	− .95	
14s 12/31/84	12.70	− .64	
13s 11/15/90	12.20	− .44	
12 3/4s 11/15/10	11.83	− .39	
Municipals:			
Bond Buyer–20 Bond Index* (12/24/80)	9.99%	− .57	+ 2.76
Blue List Total ($ Million)	$ 562	− $192	− $ 80
30-Day Visible Supply ($ Million)	$ 865	− $197	− $ 175
Total	$1,427	− $389	− $ 225
Corporates:			
Moody's Aa Composite (12/24/80)	13.59%	− .41	+ 2.33
Money Mgr.–30-Day Supply ($ Million)	$3,417	+ $ 54	+ $2,072
Stocks:			
Dow-Jones Averages:			
Industrials	966.38	+ 29.18	+ 127.47
Transportation	399.92	+ 7.89	+ 146.66
Utilities	116.79	+ 1.09	+ 9.75
65 Stocks	375.62	+ 8.92	+ 76.76
Standard and Poor's 500 Stocks	136.57	+ 2.87	+ 28.73
N.Y.S.E. Composite Index	78.28	+ 1.42	+ 16.40
N.Y.S.E. Avg. Daily Vol. for Week (000's)	38,220	−12,328	+ 10,712

* 46% Taxable equivalent 18.50%.

† Bond equivalent.

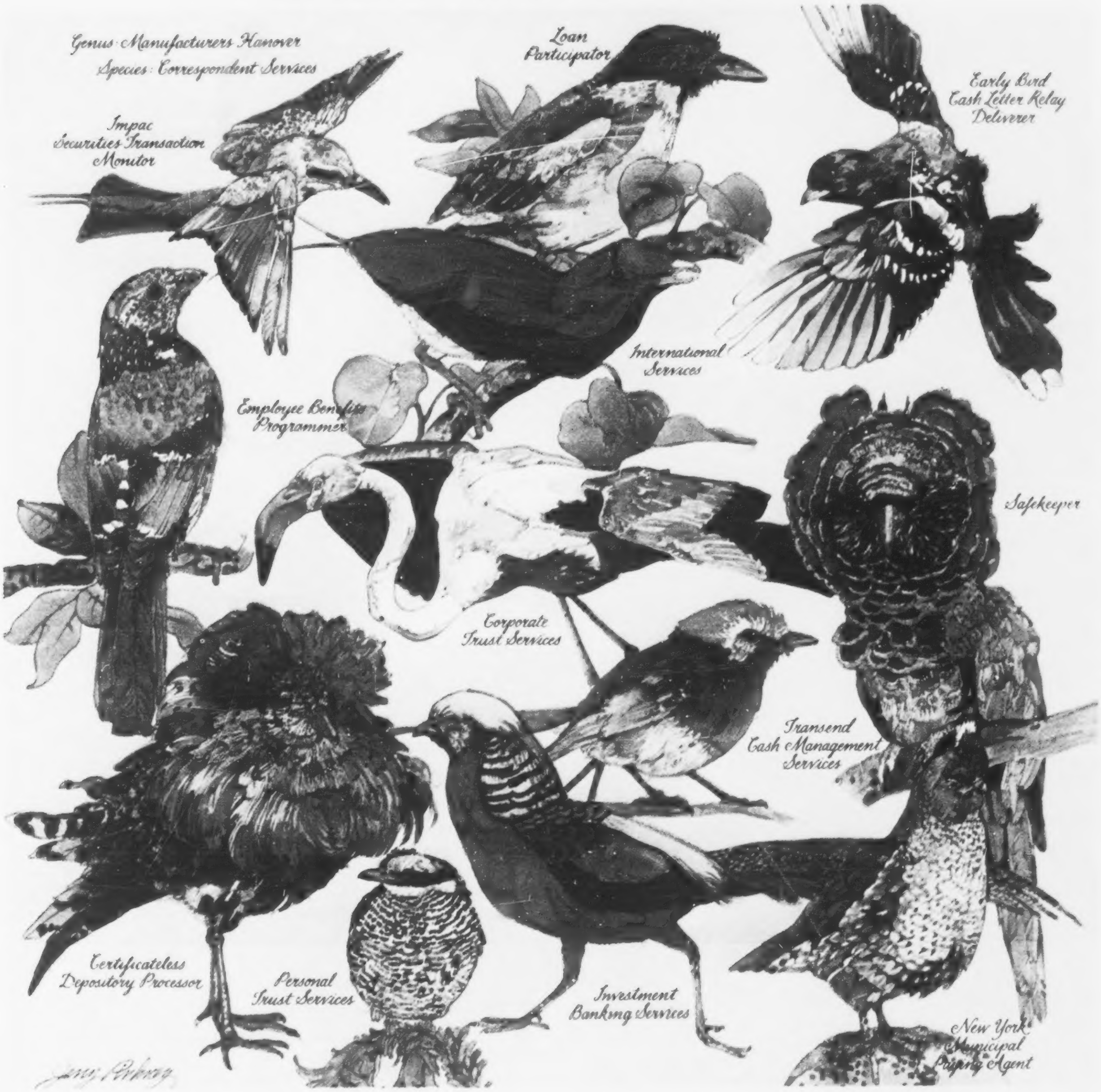
International Rates

	Friday 12/26/80	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	20.50%	20.00%
1 month	20.00	21.63
3 month	18.12	20.06
6 month	17.12	17.88
1 year	15.44	15.88
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	NA	13.30%
Long Term (7 to 15 yrs.)	NA	13.15

FOREIGN EXCHANGE SPOT RATES

New York Opening (12/26/80)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.0318	31.42
Canada	.8407	1.1895
Denmark	.1671	5.9860
France	.2227	4.4900
Germany	.5149	1.9420
Italy	.001083	923.00
Japan	.004810	207.90
Mexico	.04310	23.20
Netherlands	.4728	2.1150
Switzerland	.5666	1.7650
U.K.	2.3700	.4219

THE CORRESPONDENT WATCHER'S GUIDE.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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, JANUARY 5, 1981
VOLUME XVIII, NUMBER 1

Obstacles Confronting Mr. Reagan:

President-elect Reagan will face difficult challenges when he begins his efforts to reduce inflation and revive the economy, for 1981 is starting on a confusing note. Despite the Commerce Department's "flash" report that the GNP expanded at a healthy four per cent annual rate in the fourth quarter, President Carter is leaving behind a sagging economy. Evidence of renewed weakness is mounting—notwithstanding November's increase in the leading economic indicators.

A frequently used indicator of current economic activity is the output of paperboard as it is used for packaging. While production showed improvement in September and October, it declined by a seasonally adjusted 2.2 per cent in November to 2.6 million tons, and slowed even further during the first two weeks in December. Following a vigorous third quarter rebound, the Labor Department's weekly index of raw materials' prices, which usually responds quickly to changes in supply-demand trends and tends to foretell the near-term outlook for production, began to fall in December. It registered a three per cent drop in the last four weeks following a 14 per cent recovery since early summer. Although metals' prices were mostly responsible for the downturn, declining by almost four per cent in the last two weeks, textiles and fibers prices have slipped by 1.7 per cent, reversing their third quarter comeback.

Softening Output . . .

These trends have already begun to affect the pace of industrial production. November's increase slowed to 1.4 per cent from 1.8 per cent in the previous month. Sluggish demand at retail and conservative stocking of inventories by merchants affected consumer goods output more than any other category, resulting in production increases of less than half of October's pace. Automobile production was probably the main reason for this slowing, as production slowed to a three per cent increase from 13 per cent registered during the previous month. The rise in home goods was the smallest in three months, reflecting the adverse effects of high mortgage rates on housing starts and house transfers.

Reflecting these ominous signs in industrial output, domestic machine tool orders declined by more than 23 per cent in November compared with a year ago, although this fall was probably cushioned by a high rate of orders from the aerospace, automobile and energy industries. Machine tool orders may be viewed as a near-term leading indicator, as they are the first to be postponed when production cuts are planned and first to be ordered when production picks up. The largest decline so far this year has occurred in orders for metal-forming type machine tools where orders are currently running at less than half the pace posted at the onset of the recession in February 1980.

. . . Slower Shipments . . .

As industrial production has slowed, so has the need for transportation of manufactured goods and materials. For example, hauling by trucks, which is measured by the American Trucking Association's seasonally adjusted index of truck tonnage, slowed to a monthly increase of 1.6 per cent in October from a 13.1 per cent rise in September over the previous month. Rail transportation—after subtracting coal and grain shipments—has also slowed in recent weeks compared with the relatively sharp gains posted in the third quarter. Most importantly, shipments of building materials such as stone, clay, glass and lumber, food, metallic and nonmetallic ores and motor vehicles suffered substantially reduced demand during the fourth quarter compared with the third.

Inflation returned to a double-digit rate of rise in November for the third month in a row. Despite hopes of reversing the long-term escalation in the "core" or imbedded rate of inflation—reflecting low productivity and relatively high labor costs—in the short run, additional shocks stemming from high interest rates and high food and energy costs will make the task of lowering the rate of inflation below ten per cent within the next six months extremely difficult.

. . . More Inflation

The recent rise in energy prices, especially home heating oil, which followed five months of decline,

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coupled with the unusually cold winter particularly in the Northeast has resulted in additional pressure being brought to bear on consumers' discretionary incomes. So far in the current heating season, the number of heating degree days adjusted for population—used as a rough measure of demand for heating fuel by the Department of Energy—is substantially above last year's level and two per cent above normal. In New York City, for example, temperatures this heating season have averaged 37 per cent lower than last year. Further rises of home heating fuel and gasoline prices are practically guaranteed for the near future as a consequence of last week's round of OPEC price increases in which some producers raised the price of crude to $41 a barrel. Importantly, food prices, which have already advanced significantly, are expected to soar at a faster pace during the next six months, particularly meats and poultry.

While used car prices contributed to the substantial rise in consumer prices in November, this may also be good news for the automobile industry, as rising prices of used cars in the past have signaled a future improvement in new car sales. Traditionally, as demand for cars resumed after a period of slumping sales, the increase was first registered in the least expensive end of the market such as used cars. As demand firmed so did prices, eventually narrowing the differential between used and new car prices. As

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 12/24/80	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	128.086	– 2.117	+ .769
Loans to Depository Inst.	1.649	+ .144	+ .424
Float	6.161	+ 1.940	– .592
Total Reserve Bank Credit	144.288	+ .306	+ 3.044
Treasury Deposits with Federal Reserve Banks	2.287	– .497	– .808
Currency Outside Banks	122.907	+ .907	+ 9.153
Member Bank Reserves:			
Required	40.029	– .525	– 3.574
Excess (Deficiency)	.928	+ .426	+ .562
Total Reserves Held	40.957	– .099	– 3.574
Net Borrowed Reserves	.602	– .277	– .176
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	92.963	+ 1.736	+15.154

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M-1A (12/24/80)	387.7	+ 4.9‡	+ 5.4‡
M-1B (12/24/80)	413.2	+ 7.3‡	+ 7.5‡
M-2 (November '80)	1,688.8	+ 9.7	+ 10.1
L (September '80)	2,295.1	+ 12.4	+ 8.8

† Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 1/2/81	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	14.25%	13.72%	12.38%
* Federal Agencies	15.71	15.23	13.99
* Project Notes—Taxfree (46% Taxable Equivalent)	12.55	13.43	13.61
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	16.00	14.50	12.50

‡ Finance Company Paper—Prime	
5- 14 days	16.50%
15- 29 days	16.50
30- 59 days	16.25
60-179 days	15.00
180-270 days	14.50

‡* Bankers' Acceptances	
Feb.	17.50%
Mar.	16.45
Apr.	16.00
May	15.45
Jun.	14.90
Jul.	14.55

‡ Industrial Paper—Prime	
30- 89 days	17.63%
90-120 days	16.25

† Federal Funds Effective Rate 20.00%

‡ Discount basis. * Subject to availability. † Estimated.

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(All Dollar Figures in Billions)

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Personal Income*	Nov '80	$ 2,257	$ 2,233	$ 2,006
Leading Indicators Composite Index (1967=100) †	Nov '80n	137.6	136.0	135.6
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Net Change in Consumer Installment Credit †	Oct '80	$ 1.46	$ 1.45	$ 2.19
U.S. Merchandise Trade Balance †	Oct '80	–$ 0.97	–$ 0.76	–$ 2.36
Plant and Equipment Expenditures*	1st Q'81	$310.59(a)	$297.30(a)	$291.89
Private Housing Starts (Thousands of Units)*	Nov '80	1,555	1,561	1,522
New Construction Expenditures*	Nov '80n	$ 231.8	$ 225.0	$ 239.4
Total Business Inventories †	Oct '80	$ 457.3	$ 454.6	$ 422.7
Total Business Sales †	Oct '80	$ 325.5	$ 318.3	$ 298.5

* Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. a-Anticipated.

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consumers received more money for trade-ins, new cars in effect became cheaper, thus reducing the net cash outlay required for the new car. Currently, however, the disappointing reception that domestically produced 1981 model cars have received has been the major culprit behind the recent drop in steel output: The automobile industry is the largest consumer of steel produced in the United States. This important indicator registered a sharp drop during the past three weeks after an increase of 6.5 per cent in November and 21 per cent in October.

As the above glance at the most recent data suggests, the economy is slowing down and may well be slipping into a renewed recession, ending the brief pause experienced during the third quarter and the beginning of the fourth. Stubborn inflation and record high interest rates have already choked-off the automobile and housing industries—the two sectors which pulled the economy down during the second quarter and were responsible for a large portion of the $38.6 billion drop in real GNP. Furthermore, consumer purchasing power has been and will continue to be squeezed as income gains are eroded by inflation, higher Social Security taxes and the likelihood of increasing unemployment in the next few months.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (12/17/80)	111,327	+ 2,278	+18,118
New York City (12/17/80)	27,457	+ 800	+ 7,010
Commercial Paper (12/17/80)	123,193	– 1,730	+10,865

Bank Loans

(Millions of Dollars)

Weekly Reporting Large Commercial Banks	**Commercial and Industrial Loans** Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/17/80)	174,059	+ 1,295	+17,549
New York City (12/17/80)	51,901	+ 121	+ 4,938

	Total Loans Gross Adjusted Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/17/80)	427,586	+ 2,238	+30,021
New York City (12/17/80)	101,566	+ 1,114	+11,112

Financial Markets

	Friday 1/2/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	14.96%	– .16	+ 2.25
180-Day Bills†	14.93	– .07	+ 2.07
Longest Bills†	13.83	– .07	+ 1.50
Recent Issues:			
15⅛s 12/31/82	13.00	–0–	
14s 12/31/84	12.65	– .05	
13s 11/15/90	12.38	+ .18	
12¾s 11/15/10	11.93	+ .10	
Municipals:			
Bond Buyer—20 Bond Index* (12/31/80)	9.76%	– .23	+ 2.44
Blue List Total ($ Million)	$ 553	– $ 9	– $ 468
30-Day Visible Supply ($ Million)	$ 850	– $ 15	– $ 272
Total	$1,403	– $ 24	– $ 740
Corporates:			
Moody's Aa Composite (12/31/80)	13.56%	– .03	+ 2.18
Money Mgr.—30-Day Supply ($ Million)	$3,470	+ $ 53	+ $1,670
Stocks:			
Dow-Jones Averages:			
Industrials	972.78	+ 6.40	+ 143.94
Transportation	401.43	+ 1.51	+ 150.12
Utilities	115.12	– 1.67	+ 8.18
65 Stocks	376.58	+ 0.96	+ 80.36
Standard and Poor's 500 Stocks	135.53	– 1.04	+ 29.01
N.Y.S.E. Composite Index	78.26	– .02	+ 17.09
N.Y.S.E. Avg. Daily Vol. for Week (000's)	39,411	+ 1,191	– 1,097

* 46% Taxable equivalent 18.07%.

† Bond equivalent.

International Rates

	Friday 1/2/81	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	19.87%	20.50%
1 month	19.13	20.00
3 month	18.00	18.12
6 month	16.87	17.12
1 year	15.06	15.44
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	12.60%	12.55%
Long Term (7 to 15 yrs.)	12.80	12.75

FOREIGN EXCHANGE SPOT RATES New York Opening (1/2/81)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.03170	31.55
Canada	.8398	1.1907
Denmark	.1663	6.0150
France	.2208	4.5300
Germany	.5103	1.9595
Italy	.001076	929.00
Japan	.004909	203.70
Mexico	.04310	23.20
Netherlands	.4689	2.1325
Switzerland	.5653	1.7690
U.K.	2.3830	.4196

4

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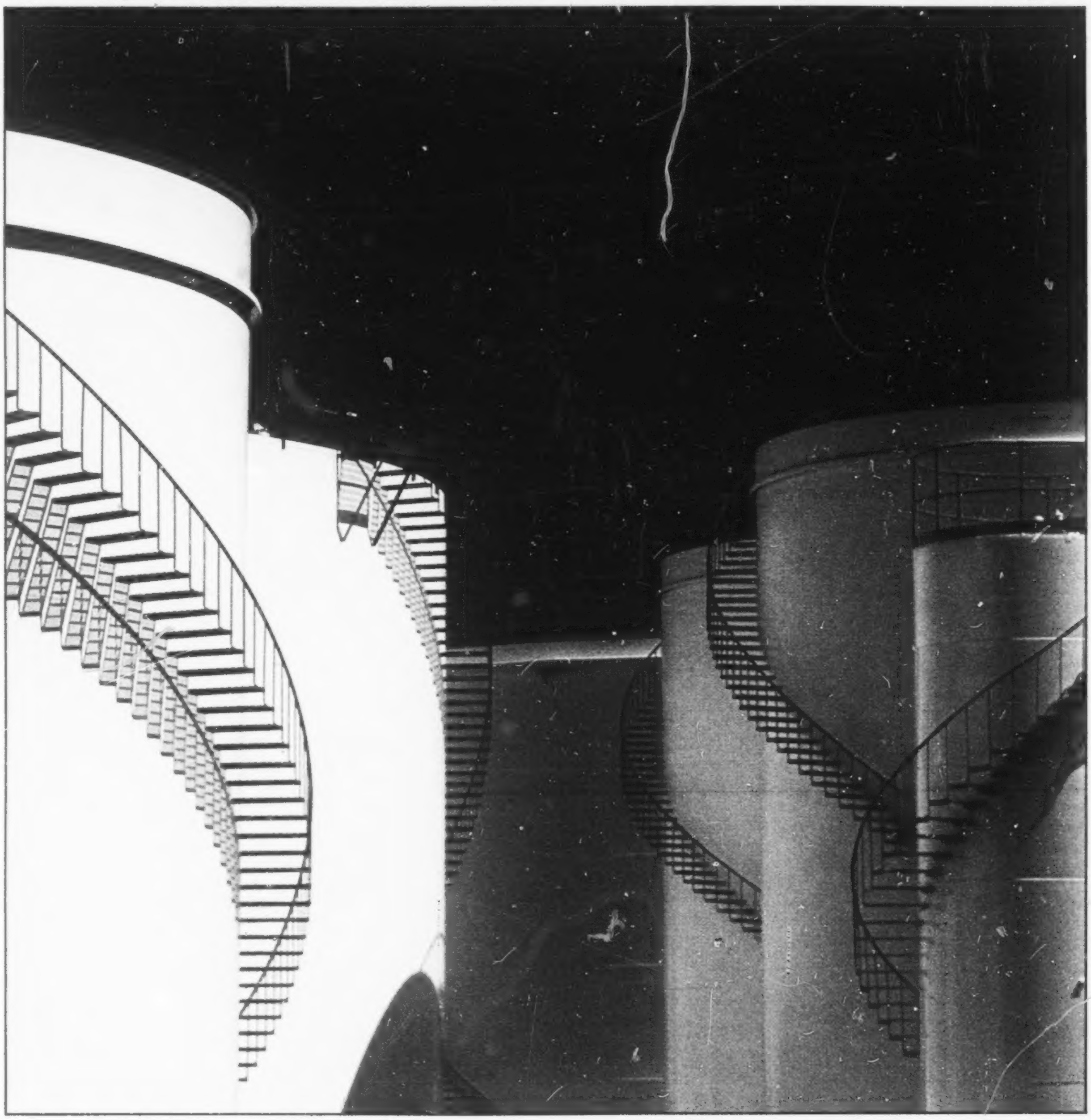

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1/16/81
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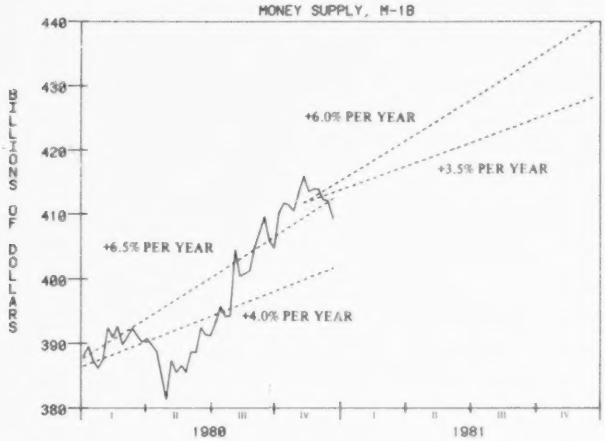
The Manufacturers Hanover Financial Digest

Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, JANUARY 12, 1981 VOLUME XVIII, NUMBER 2



Room to Maneuver

If the chart above is any guide, the Federal Reserve has begun the new year with some room to maneuver, insofar as monetary policy is concerned. Not only did the money supply, M-1B, drop into the Fed's target range for 1980 at the end of last year—it begins the year 1981 at a level far below the lower limit of the Fed's target range for 1981. This is because the base period for this year's target range is the average level of the money supply in 1980's fourth quarter, and the money supply has been declining, on balance, since the middle of November: It ended up the year 1980 at a level far below the average for the fourth quarter. Thus, even though the Federal Reserve's growth targets for 1981 call for slightly less growth in the money supply than in 1980, there is still room for expansion, near-term, before the Fed need worry about the money supply growing too rapidly once again.

The Fed will need all of the room to maneuver it can get. This is because the banking system on January 1 moved to nationwide negotiable order of withdrawal (NOW) accounts. While no one can tell for certain how the various monetary aggregates will be affected, it would seem reasonable to expect that M-1B might be bloated, since many people who now keep their liquid funds in savings and small-denomination time deposits (currently counted as M-2) may elect to move them into NOW accounts, where they can obtain interest on their funds while still being able to access them relatively quickly. NOW and automatic transfer service accounts at banks and thrift institutions are counted by the Fed as part of M-1B.

Signs Of Softness . . .

Consumers and business alike are expecting tougher times ahead under the weight of a slowing economy, high rates of inflation and interest. This pessimism can be seen from a glance at two widely followed surveys—the Conference Board's index of consumer confidence and the monthly survey conducted by the National Association of Purchasing Management Inc., both of which worsened in December.

Consumer expectations dropped in December for the second month in a row, after climbing for five months. The December decline was sharp, as the index plummeted by 11 points—exceeded only last April when it posted its largest monthly drop ever. This change in consumer attitudes was reflected in the buying plans index, where intentions to buy an automobile or a major appliance fell by 9.2 points while plans to buy a home remained unchanged.

Not surprisingly, many businesses have begun to feel the pinch. In the survey of purchasing managers at 225 industrial companies, both production and new orders turned negative. More particularly, 22 per cent of those managers questioned reported lower production schedules, up from 13 per cent last month. Furthermore, only half of those who reported increased production in November did so again in December. Finally, more than twice as many managers posted a lower rate of incoming new orders than in November.

. . . Begin To Spread

Output is down because manufacturers' inventories expanded by $1.3 billion in November. Many producers apparently rushed to increase production in response to the summer and early fall uptick in economic activity. Industrial production increased for four consecutive months beginning in August, totaling 5.7 per cent, while final demand remained relatively weak. This left producers with swollen

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stocks. The greatest increase took place in the food products industry where consumers, confronted with skyrocketing food costs and eroding purchasing power, altered their eating and shopping habits.

The value of manufacturers' shipments slowed to a 1.1 per cent rate of growth from 2.6 per cent a month earlier. Most of the slowdown was in the durable goods industries as shipments increased at one-quarter of October's pace. New orders, which indicate levels of future production increased by one per cent, boosted by a hefty 8.2 per cent increase in orders for transportation equipment, mostly from the aircraft and parts industry. Although durable goods orders posted a 1.3 per cent rise, when the transportation equipment industry is excluded, it becomes a decline of 0.3 per cent.

The automobile industry ended last year mired in red ink. Domestic producers sold 20 per cent fewer cars in 1980 than during the year before. At 6.6 million units, 1980's sales were the lowest since 1961. Sales plummeted in December, ending with 5.6 million units sold at a seasonally adjusted annual rate in the final ten days—a 25.4 per cent decline from the comparable period in the year before. Although the automobile industry represents

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending	$ Change Since	
Reserve Bank Credit	12/31/80	Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	126.445	– 1.641	– 1.395
Loans to Depository Inst.	1.627	– .022	+ .196
Float	9.176	+ 3.138	+ 1.494
Total Reserve Bank Credit	145.976	+ 1.803	+ 2.576
Treasury Deposits with Federal Reserve Banks	3.286	+ .999	– .321
Currency Outside Banks	123.285	+ .373	+ 9.239
Member Bank Reserves:			
Required	40.558	+ .529	– 3.659
Excess (Deficiency)	.590	– .219	+ .040
Total Reserves Held	41.148	+ .310	– 3.619
Net Borrowed Reserves	.921	+ .200	+ .104
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	92.963	+ 1.736	+15.154

		% Change Since	
Monetary Aggregates†		Three Months Ago*	Year Ago
M-1A	381.4	+ 0.9‡	+ 4.1‡
M-1B	406.8	+ 3.1‡	+ 6.3‡
M-2 (November '80)	1,667.6	+ 9.8	+ 10.0
L (October '80)	2,310.2	+ 12.5	+ 9.0

†Seasonally adjusted.

*Seasonally adjusted annual rate.

‡Four-week moving average.

New York Money Market

Offering Rates 1/9/81	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	15.00%	14.22%	12.62%
* Federal Agencies	16.38	15.13	13.07
* Project Notes–Taxfree (46% Taxable Equivalent)	11.57	13.15	13.15
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	15.50	14.00	

‡Finance Company Paper–Prime

5- 14 days	17.00%
15- 29 days	18.00
30- 59 days	17.50
60-179 days	16.00
180-270 days	13.50

‡* Bankers' Acceptances

Feb.	17.80%
Mar.	17.20
Apr.	16.40
May	16.00
Jun.	15.50
Jul.	14.70

‡Industrial Paper–Prime

30- 89 days	17.88%
90-120 days	16.50

†Federal Funds Effective Rate 19.70%

‡Discount basis. *Subject to availability. †Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'80	$ 2,637	$ 2,565	$ 2,444
Gross National Product (1972 Dollars)*	3rd Q'80	$ 1,472	$ 1,463	$ 1,488
Percent Change, Annual Rate	3rd Q'80	2.4%	– 9.9%	4.1%
Change in Consumer Prices (all urban consumers)*	Nov '80	12.0%	12.0%	12.0%
Change in Producer Prices*	Dec '80n	7.2%	7.2%	9.6%
Civilian Employment (Thousands of Persons)†	Dec '80n	97,280	97,339	97,912
Unemployment as % of Civilian Labor Force†	Dec '80n	7.4%	7.5%	5.9%
Personal Income*	Nov '80	$ 2,257	$ 2,233	$ 2,006
Leading Indicators Composite Index (1967=100)†	Nov '80	137.6	136.0	135.6
Industrial Production Index (1967=100)†	Nov '80	148.5	146.5	152.3
Net Change in Consumer Installment Credit†	Oct '80	$ 1.46	$ 1.45	$ 2.19
U.S. Merchandise Trade Balance†	Nov '80n	–$ 0.79	–$ 0.97	–$ 1.62
Plant and Equipment Expenditures*	1st Q'81	$310.59(a)	$297.30(a)	$291.89
Private Housing Starts (Thousands of Units)*	Nov '80	1,555	1,561	1,522
New Construction Expenditures*	Nov '80	$ 231.8	$ 225.0	$ 239.4
Total Business Inventories†	Oct '80	$ 457.3	$ 454.6	$ 422.7
Total Business Sales†	Oct '80	$ 325.5	$ 318.3	$ 298.5

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

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one of the largest sectors of our economy, it is noted that it does not have the same influence it once had. Sales of domestic cars have not expanded at the same pace as the real GNP. In fact, while unit auto sales increased by 27 per cent during the 15 years ending in 1978, GNP grew almost three times as fast.

Prospects For The Dollar . . .

The exchange rate of the U.S. dollar against the other major currencies continues to reflect mainly interest rate differentials. Although the relationship between changes in exchange rates and interest rates is not fixed, the dollar exchange rate in the last 12 months has shown a strong tendency to move in the same direction as domestic and Eurodollar rates.

In spite of the poor performance of the U.S. economy in 1980, the dollar showed strength against most other major currencies. Between the first and last trading days of 1980, the dollar appreciated by over 12 per cent against the German mark, 11 per cent against the French franc and 11 per cent against the Swiss franc. On the other hand, the British pound appreciated by seven per cent against the dollar (reflecting a high interest rate policy in that country), while the Japanese yen appreciated about 18 per cent against the dollar. The rise in the

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since	
		Week Ago	Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (12/24/80)	115,517	+ 4,190	+22,936
New York City (12/24/80)	28,497	+ 1,040	+ 8,282
Commercial Paper (12/24/80)	123,193	– 1,730	+10,868

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (12/24/80)	172,514	– 1,545	+15,717
New York City (12/24/80)	50,679	– 1,222	+ 3,536

Total Loans Gross Adjusted

	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (12/24/80)	428,428	+ 842	+31,630
New York City (12/24/80)	101,230	– 341	+10,582

Financial Markets

	Friday 1/9/81	Change Since	
		Week Ago	Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	16.00%	+ 1.04	+ 3.76
180-Day Bills†	15.60	+ .67	+ 2.98
Longest Bills†	14.28	+ .45	+ 2.44
Recent Issues:			
$15\frac{1}{8}$s 12/31/82	13.52	+ .52	
14s 12/31/84	13.00	+ .35	
13s 11/15/90	12.54	+ .16	
$12\frac{3}{4}$s 11/15/10	12.09	+ .16	
Municipals:			
Bond Buyer–20 Bond Index* (1/8/81)	9.49%	– .27	+ 2.19
Blue List Total ($ Million)	$ 606	+ $ 53	– $ 257
30-Day Visible Supply ($ Million)	$ 882	+ $ 32	– $ 664
Total	$1,488	+ $ 85	– $ 921
Corporates:			
Moody's Aa Composite (1/8/81)	13.35%	+ .21	+ 1.95
Money Mgr.–30-Day Supply ($ Million)	$3,692	+ $222	+ $2,298
Stocks:			
Dow-Jones Averages:			
Industrials	968.69	– 4.09	+ 110.16
Transportation	384.82	– 16.61	+ 127.81
Utilities	112.89	– 2.23	+ 3.72
65 Stocks	369.77	– 6.81	+ 64.83
Standard and Poor's 500 Stocks	133.48	– 2.05	+ 23.56
N.Y.S.E. Composite Index	76.44	– 1.82	+ 13.11
N.Y.S.E. Avg. Daily Vol. for Week (000's)	65,134	+25,723	+ 10,638

* 46% Taxable equivalent 17.57%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 1/9/81	Week Ago
Overnight	19.88%	19.88%
1 month	19.00	19.13
3 month	18.00	18.00
6 month	16.63	16.88
1 year	15.38	15.06
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	12.90%	12.60%
Long Term (7 to 15 yrs.)	12.80	12.80

FOREIGN EXCHANGE SPOT RATES

New York Opening (1/9/81)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.03157	31.68
Canada	.8420	1.1876
Denmark	.1648	6.0680
France	.2199	4.5480
Germany	.5084	1.9670
Italy	.001069	935.25
Japan	.004943	202.30
Mexico	.04290	23.31
Netherlands	.4677	2.1380
Switzerland	.5622	1.7787
U.K.	2.4015	.4164

yen in 1980 mirrored, among other things, the strength of the Japanese economy (which grew about five per cent) and large inflows of funds from the Middle East, as the OPEC nations diversified their investment portfolios.

Since the first of the year, as U.S. and Eurodollar interest rates have begun to decline, the dollar has begun to weaken as well. This weakness also reflects uncertainty about U.S. economic policy under the new Administration. Response to small changes in interest rates has been correspondingly exaggerated in the foreign exchange markets as investors seek to pierce the curtain of the future. It is probable that the present instability in the foreign exchange markets will fade over the next few months and give way to a period of relative stability. Although the U.S. is anticipating another year of low growth and a high though slowing rate of inflation, the factors which shape the foreign exchange markets will continue to operate in the dollar's favor in most respects.

. . . Still Look Good

At present, all of the important exchange rate factors favor the dollar. Interest rates, though falling, are still high relative to most other major countries, and although the inflation rate is also still high, it appears to be declining under the impact of low growth and a tight Fed monetary policy. Hence real interest rates still make dollar assets desirable and will probably continue to do so during 1981. At present, three-month Eurodollar rates are close to 18.0 per cent with inflation in the U.S. currently running at about 12 per cent yielding a "real" interest rate of six per cent. Three-month Euromarks are approximately nine per cent with inflation currently about 5.2 per cent yielding a 3.8 per cent real interest rate.

The real interest rate differential has narrowed in recent weeks yet still remains favorable to holders of dollar denominated assets. The question in the minds of foreign exchange traders and international money managers is whether or not the recent break in interest rates represents the beginning of a substantial decline or is merely a brief hiatus in a period of sustained high real interest rates.

The longer-run outlook is even more favorable to a strong dollar. Most balance of payments analysts believe that the U.S. ended 1980 with a modest current account surplus. At the same time, Germany probably experienced a current account deficit of close to $16 billion and most other major nations also expected large deficits (largely due to rising oil prices and declining export opportunities).

In 1981 the U.S. current account should show a substantial surplus. Low real growth in the United States will reduce import demand while many of our exports, particularly agricultural products, are expected to do well. Oil imports, the major contributor to U.S. trade deficits, are expected to decline as economic activity slows and as the deregulation of domestic oil prices and gradually rising OPEC prices continue to discourage consumption.

Given these considerations, it is probable that the dollar will continue to retain most of its recent strength as long as the favorable interest rate spread exists—that is, until interest rates decline to the point where our higher inflation rate erases the advantage. In the medium term, a lower level of strength will reside in the dollar as long as our current account performance exceeds that of the other principal countries. In the event that the real interest rate advantage disappears, but the current account picture remains favorable, the dollar exchange rate will continue to enjoy a very modest but noticeable level above the rates prevailing in late 1978 and early 1979 (when the U.S. current account was in deficit).

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The Manufacturers Hanover Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, JANUARY 19, 1981 VOLUME XVIII, NUMBER 3

New Borrowing Weakens . . .

Consumer credit outstanding expanded for the fourth consecutive month in November, however, upon closer examination, this fact which initially appears encouraging provides little to cheer about. The reason is that credit extentions declined during the month, but debt repayments declined even further. Consumers borrowed $1.4 billion or five per cent less than in October. That decrease was the sharpest drop since the 1973-75 recession (with the exception of last March and April when the use of credit was hampered by the Fed's credit restrictions). Repayments declined by 5.7 per cent—the largest monthly dip ever.

These statistics signal a weakening economy in general and deteriorating consumer situation in particular. People have apparently become unwilling to finance purchases by increased borrowing when faced with uncertainties about the future (Financial Digest—January 12, 1981). They seem to be reluctant to acquire new debt despite a decrease in the proportion of disposable income used to repay existing debt. This has declined from 18 per cent registered toward the end of 1979 to less than 16 per cent, suggesting smaller repayments, due to stretching payments over as long a time period as possible. Similarly, debt extensions as a per cent of disposable income declined to slightly under 16½ per cent after topping 20 per cent toward the end of 1979. Debt repayment has become a serious concern for many individuals who for some time have seen their purchasing power eroded by inflation. For those people, sharply escalating costs of necessities such as food, housing and energy, compounded by the high cost of credit, have resulted in a substantial curtailment of discretionary purchases.

One of the largest declines occurred in extensions of automobile credit which decreased by 5.7 per cent from $7.54 billion extended in October. All other categories posted declines, including revolving credit, mobile homes, and other installment credit which plummeted by $700 million. In November 1980, total consumer credit outstanding was relatively unchanged compared with a year ago following an expansion of 14.6 per cent in 1979 and almost 20 per cent in 1978.

. . . Taking Its Toll On Retail Sales

The increased reluctance to purchase on credit showed up in December's retail sales numbers which declined, following six months of increase. Total sales at retail stores—a lot of which are dependent on the use of credit—fell by 1.3 per cent from November to a seasonally adjusted $80.8 billion paced by a 7.5 per cent fall in sales by automobile dealers. Although total sales were five per cent above the year-ago figure, after inflation is factored out, they registered a six per cent retreat.

Declines were posted by most durable as well as some nondurable goods stores. Durable goods sales slipped by 3.5 per cent, but the worst pinch was experienced by the interest sensitive sectors—mostly housing and auto related. If the situation in this area continues, many other industries which supply these two key industries will start to be affected soon and further weakness may occur in rubber, home furnishings, metals and others.

Nondurable goods sales declined at a slower pace. Only the general merchandise group stores, gasoline service stations and surprisingly drug stores sold less than the month before. Reflecting the lackluster Christmas shopping season, department store sales fell by two per cent and were only 5.8 per cent above the previous year. Food stores, apparel and accessory stores, restaurants and bars posted very small increases which barely kept pace with the rate of inflation.

Employment Prospects Dim

Responding to the five-month upturn in industrial output, the employment situation improved for the third consecutive month in December, albeit slightly. The unemployment rate dropped by one percentage point to 7.4 per cent last month while many factory workers worked longer hours and overtime increased to an average of 3.1 hours per week. But the number of those employed declined as many discouraged workers left the job market which resulted in a shrinking labor force. Although many industries rehired some workers after laying them off during the summer, there are substantially fewer production workers currently employed than at the onset of the recession.

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Importantly, the number of workers in the goods producing industries which include mining, construction and manufacturing is almost one million below that prevailing at the onset of the current recession. This slide was mostly concentrated in manufacturing, where after a half-million workers were rehired during the second half of the year, 750,000 of those laid off since January remain jobless. Not surprisingly, the employment picture was the worst in durable goods manufacturing. For example, the number of production workers employed by the transportation equipment industry is down by 5.6 per cent since the beginning of last year, rubber and plastics by 5.8 per cent, furniture and fixtures by 5.5 per cent and nonelectrical machinery by 5.3 per cent. Fortunately, the service sector consistently expanded its payrolls in the past year, partially offsetting the declines in other areas. Employment here increased by 3.2 per cent or half a million employees since January 1980.

Although last month's improvement in the unemployment rate was a pleasant surprise it probably will be cut short by weakening final demand. Declining retail sales and slowing new orders for manufactured goods will shortly force manufacturers to cut back production—where the rate of rise has already slowed substantially in the past three

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 1/7/81	$ Change Since	
		Week Ago	Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	130.499	+ 4.054	+ 3.494
Loans to Depository Inst.	1.117	− .510	+ .387
Float	5.991	− 3.058	− 1.619
Total Reserve Bank Credit	146.266	+ .409	+ 5.293
Treasury Deposits with Federal Reserve Banks	2.979	− .307	+ .167
Currency Outside Banks	122.913	− .345	+ 9.431
Member Bank Reserves:			
Required	40.374	− .184	− 4.169
Excess (Deficiency)	.851	+ .355	+ .723
Total Reserves Held	41.225	+ .171	− 3.446
Net Borrowed Reserves	.154	− .861	− .278
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	92.871	+ 1.076	+12.156
		% Change Since	
Monetary Aggregates†		Three Months Ago*	Year Ago
M-1A	382.5	− 0.7‡	+ 3.4‡
M-1B	417.6	+ 3.6‡	+ 6.0‡
M-2 (December '80)	1,669.7	+ 7.2	+ 9.4
L (October '80)	2,310.1	+ 12.4	+ 8.9

†Seasonally adjusted.

* Seasonally adjusted annual rate.

‡Four-week moving average.

New York Money Market

Offering Rates 1/16/81	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	14.90%	12.90%	12.40%
* Federal Agencies	15.75	14.30	12.50
* Project Notes—Taxfree (46% Taxable Equivalent)	12.50	13.15	13.15
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	16.50	15.00	

‡Finance Company Paper—Prime	
5- 14 days	18.13%
15- 29 days	18.25
30- 59 days	17.00
60-179 days	16.00
180-270 days	14.00

‡* Bankers' Acceptances	
Feb.	18.25%
Mar.	17.60
Apr.	17.10
May	16.50
Jun.	15.60
Jul.	15.00

‡Industrial Paper—Prime	
30- 89 days	18.00%
90-120 days	17.00

†Federal Funds	
Effective Rate	19.85%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'80	$ 2,637	$ 2,565	$ 2,444
Gross National Product (1972 Dollars)*	3rd Q'80	$ 1,472	$ 1,463	$ 1,488
Percent Change, Annual Rate	3rd Q'80	2.4%	− 9.9%	4.1%
Change in Consumer Prices (all urban consumers)*	Nov '80	12.0%	12.0%	12.0%
Change in Producer Prices*	Dec '80	7.2%	7.2%	9.6%
Civilian Employment (Thousands of Persons)†	Dec '80	97,282	97,339	97,781
Unemployment as % of Civilian Labor Force†	Dec '80	7.4%	7.5%	6.0%
Personal Income*	Nov '80	$ 2,257	$ 2,233	$ 2,006
Leading Indicators Composite Index (1967=100)†	Nov '80	137.6	136.0	135.6
Industrial Production Index (1967=100)†	Dec '80n	150.7	149.2	152.5
Net Change in Consumer Installment Credit†	Nov '80n	$ 0.84	$ 0.70	$ 2.69
U.S. Merchandise Trade Balance†	Nov '80	−$ 0.79	−$ 0.97	−$ 1.62
Plant and Equipment Expenditures*	1st Q'81	$310.59(a)	$297.30(a)	$291.89
Private Housing Starts (Thousands of Units)*	Nov '80	1,555	1,561	1,522
New Construction Expenditures*	Nov '80	$ 231.8	$ 226.2	$ 239.4
Total Business Inventories†	Nov '80	$ 458.2	$ 456.5	$ 426.0
Total Business Sales†	Nov '80	$ 329.1	$ 325.8	$ 298.9

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

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months to only one per cent in December—and with it reduce payrolls. The overall unemployment rate may rise again, climbing even above the 1980 peak of 7.6 per cent. Furthermore, productivity will again be threatened as it usually is during periods of declining output as employers lay off workers at a slower pace than reduce production.

Iran's Assets And The Money Supply

At week's end, it appeared that, if an agreement was to be reached with the Iranians regarding the return of the hostages, it would involve release of Iran's frozen financial assets. There has been much speculation on the possible impact of this on the U.S. money supply. Most estimates place the total value of these assets at between $6 and $9.5 billion. These funds are held as various forms of time deposits (e.g. certificates of deposit) in foreign branches of U.S. banks, as time deposits in U.S. banks within the United States, and in the form of government and other securities. Only a very small portion is held as bank demand deposits, either in the U.S. or abroad.

To determine the possible money supply impact of releasing these assets to the Iranian government, the various alternative ways in which they might be transferred must be considered. They are:

1. The assets may remain on deposit where they are,

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (12/31/80)	116,597	+ 989	+23,779
New York City (12/31/80)	28,649	+ 66	+ 9,073
Commercial Paper (12/31/80)	123,085	− 1,059	+10,173

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/31/80)	174,570	+ 1,988	+16,680
New York City (12/31/80)	51,835	+ 1,080	+ 3,859

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (12/31/80)	433,563	+ 5,112	+32,208
New York City (12/31/80)	104,881	+ 3,622	+12,691

Financial Markets

	Friday 1/16/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	15.92%	− .08	+ 3.59
180-Day Bills†	15.20	− .40	+ 2.67
Longest Bills†	13.83	− .45	+ 1.99
Recent Issues:			
$15\frac{1}{8}$s 12/31/82	13.02	− .50	
14s 12/31/84	12.90	− .10	
13s 11/15/90	12.58	+ .04	
$12\frac{3}{4}$s 11/15/10	12.15	+ .06	
Municipals:			
Bond Buyer—20 Bond Index* (1/15/81)	9.57%	+ .08	+ 2.29
Blue List Total ($ Million)	$ 589	− $ 17	− $ 196
30-Day Visible Supply ($ Million)	$1,268	+ $386	− $ 169
Total	$1,857	+ $369	− $ 365
Corporates:			
Moody's Aa Composite (1/15/81)	13.53%	+ .18	+ 2.00
Money Mgr.—30-Day Supply ($ Million)	$3,498	− $194	+ $1,541
Stocks:			
Dow-Jones Averages:			
Industrials	973.29	+ 4.60	+ 106.14
Transportation	401.98	+ 17.16	+ 138.30
Utilities	113.22	+ 0.33	+ 5.27
65 Stocks	375.92	+ 6.15	+ 67.67
Standard and Poor's 500 Stocks	134.77	+ 1.29	+ 23.70
N.Y.S.E. Composite Index	77.33	+ 0.89	+ 13.39
N.Y.S.E. Avg. Daily Vol. for Week (000's)	42,854	−22,280	− 12,038

* 46% Taxable equivalent 17.72%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 1/16/81	Week Ago
Overnight	19.75%	19.88%
1 month	19.81	19.00
3 month	18.75	18.00
6 month	17.25	16.63
1 year	15.75	15.38
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	13.20%	12.90%
Long Term (7 to 15 yrs.)	13.00	12.80

FOREIGN EXCHANGE SPOT RATES

New York Opening (1/16/81)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.03082	32.45
Canada	.8386	1.1924
Denmark	.1611	6.2080
France	.2145	4.6610
Germany	.4956	2.0177
Italy	.001042	959.75
Japan	.004931	202.80
Mexico	.04275	23.39
Netherlands	.4557	2.1945
Switzerland	.5471	1.8277
U.K.	2.4011	.4165

2. they might be redeposited as dollar denominated assets in non-U.S. banks (i.e. in the Eurodollar market),
3. they might be exchanged for various foreign currencies.

In any of these events, the money supply effects would be negligible. If the assets remain as they are now there would be obviously no effect on the U.S. money supply. If the assets were redeposited with non-U.S. banks in dollar-denominated assets, the result would simply be the transfer of the title to the deposits from one holder to another with no net effect on our money supply. If the funds were exchanged for foreign currencies, there would also be no money supply effect. If the U.S. Treasury were the repurchaser of its own paper, it would issue an equivalent amount of securities in order to obtain the funds to pay the Iranians. Thus, an equivalent amount of money would be withdrawn from the banking system as was deposited. If the private sector purchased the Treasury paper, the effect would again be a transfer of ownership of the same number of dollars from the bank account of the buyer to that of the seller. In short, there is no net effect on the money supply.

The transactions involved above take place by wire and are, therefore, almost instantaneous. It is unlikely that any transitory disequilibrium caused by these transactions would be reflected in the weekly money supply figures which only reflect the aggregate impact of an almost infinite number of large and small transactions.

Finally, the amount under consideration—at most, $10 billion—is small, compared with even the narrowest measure of the money supply. Known as M-1A, this measure totals over $380 billion. Of course, at the margin, it would be significant, but it must be remembered that only the demand deposit component would be immediately available, and, as noted above, these funds in particular comprise only a small part of the total.

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1-27-81
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The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, JANUARY 26, 1981

VOLUME XVIII, NUMBER 4

The Release Of Iranian Assets . . .

It is unlikely that the removal of the Iranian assets from U.S. banks and their foreign branches will affect the exchange rate of the dollar adversely. It is probable that the largest part of the approximately $8 billion which has been transferred to an escrow account with the Bank of England will remain in dollar-denominated assets for some time to come and, thus, will not enter the foreign exchange market.

Some $5.1 billion of the total amount transferred has been set aside to meet Iranian obligations to the U.S. and foreign banks. Of this amount $3.7 billion is allocated to retiring large syndicated bank loans; the other $1.4 billion is in a special escrow account for settling other non-syndicated bank loans. If any of this $5.1 billion were to be exchanged for other currencies, the transactions would probably be spread out over a number of days or even weeks so that their exchange rate effects would be indistinguishable from so-called "normal" transactions. If a number of these transactions were to be bunched either deliberately or accidentally, it is well within the resources and skills of several large central banks acting either individually or in concert to smooth out the exchange rate effects.

The remaining $2.9 billion in assets have passed directly to the Iranians unencumbered by any escrow or other restrictions (at least so far). Although the form which those assets are in is not known, it is probable that they were in gold and perhaps in Treasury securities. This assumption is based upon the fact that the bulk of the assets was devoted to immediate redistribution to Iran's bank creditor. The conversion of gold and Treasury securities takes a little bit longer. Of the $8 billion in assets returned to the Iranians, $940 million was in gold and $1.4 billion was in U.S. Treasury securities. The rest (about $5.7 billion) was largely in more liquid form—bank deposits.

. . . Won't Weaken The Dollar

If the Iranians were so inclined, they could convert the $2.9 billion into other currencies fairly rapidly though at some cost to themselves in terms of interest foregone and fees and commissions. Further, it would be short-sighted, indeed, for the Iranians not to keep a substantial part of their international reserves in dollars since that is the primary settlements currency in international trade. High interest rates in the United States also make dollar-denominated assets desirable.

A further $4 billion in Iranian assets were not transferred abroad. This amount is apparently subject to various forms of dispute (including law suits) and will presumably be subject to arbitration. Whatever amount is not paid out as compensation is supposed to be returned to Iran. It is apparent that such settlements will take considerable time, further attenuating any potential foreign exchange market effects. It appears unlikely, therefore, that sufficient Iranian assets could be mobilized rapidly in the appropriate form for exchange in order to cause a marked decline of the dollar against the other principal currencies.

Pockets Of Strength . . .

The five per cent rise in the fourth quarter's GNP was not only above virtually all expectations but it represented a rate of growth more than twice as fast as the 2.4 per cent recorded in the third quarter. Undoubtedly some of this momentum traces to consumer hedge buying in the face of renewed inflation expectations. But beneath the surface this strength also traces to improvement in some durable manufacturing industries.

Although most industries have been cutting back spending on new plants and equipment as a result of persistently low rates of capacity utilization—which in December bounced up to almost 80 per cent but is still below the 84 per cent registered at the start of this recession—and erosion of profit margins, several areas in industrial machinery, however, are doing well.

Strong demand by the auto industry, expansion in the commercial and defense aerospace industry and importantly, increased expenditures for oil well drilling and alternative energy projects have generated significantly larger demand for machine tools. Large backlogs should sustain production for at least five quarters at the current rate of ship-

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ments. Sharply rising OPEC prices and decontrol of domestic crude oil have increased the oil industry's profitability thus resulting in stepped-up drilling for more oil. Therefore, many machinery companies which supply this industry—especially fabricators of drilling equipment—have registered a substantial rise in demand while some simultaneously posted hefty price increases. Drilling increased by 56 per cent between January and November 1980, with the total number of feet drilled during this time period standing at 250,461—an all-time record. Similarly, despite near-term scaling down of capital spending plans in general, major automobile companies have increased their budgets for the next five years for the production of more modern and fuel-efficient, small cars.

Barring another round of adverse developments such as an export embargo, skyrocketing production costs—especially energy—and bad weather, all of which occurred last year, stepped-up demand for U.S. agricultural products should improve the farm situation in 1981. Poor crops in the Soviet Union and China have increased the demand for our grains while other major producers such as Canada and Australia had disappointing harvests. Higher commodity prices boosted farmers' incomes during the fourth quarter, resulting in a rebound in the

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 1/14/81	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	129.282	− 1.217	+ 2.353
Loans to Depository Inst.	1.332	+ .215	+ .105
Float	4.368	− 1.331	− 1.701
Total Reserve Bank Credit	143.570	− 2.512	+ 4.022
Treasury Deposits with Federal Reserve Banks	3.085	+ .106	− .196
Currency Outside Banks	119.507	− 3.416	+ 9.645
Member Bank Reserves:			
Required	41.240	+ .866	− 4.791
Excess (Deficiency)	.625	− .039	+ .242
Total Reserves Held	41.865	+ .827	− 4.549
Net Borrowed Reserves	.602	+ .261	+ .001
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	92.983	+ .112	+13.557

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M-1A	374.1	− 4.2‡	+ 2.6‡
M-1B	416.9	+ 4.0‡	+ 6.6‡
M-2 (December '80)	1,669.7	+ 7.2	+ 9.4
L (October '80)	2,310.1	+ 12.4	+ 8.9

† Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 1/23/81	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	15.30%	14.30%	13.60%
* Federal Agencies	17.40	16.00	14.30
* Project Notes—Taxfree (46% Taxable Equivalent)	12.50	13.80	13.80
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	17.25	15.50	

‡ Finance Company Paper—Prime	
5- 14 days	17.00%
15- 29 days	17.50
30- 59 days	17.63
60- 89 days	16.25
90-179 days	15.00
180-270 days	14.00

‡* Bankers' Acceptances	
Feb.	18.20%
Mar.	17.70
Apr.	17.25
May	16.80
Jun.	16.00
Jul.	15.30

‡ Industrial Paper—Prime	
30- 89 days	18.00%
90-120 days	17.00

† Federal Funds Effective Rate 18.65%

‡ Discount basis.

* Subject to availability.

† Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'80n	$ 2,741	$ 2,637	$ 2,496
Gross National Product (1972 Dollars)*	4th Q'80n	$ 1,490	$ 1,472	$ 1,491
Percent Change, Annual Rate	4th Q'80n	5.0%	2.4%	0.6%
Change in Consumer Prices (all urban consumers)*	Dec '80n	13.2%	12.0%	14.0%
Change in Producer Prices*	Dec '80	7.2%	7.2%	9.6%
Civilian Employment (Thousands of Persons) †	Dec '80	97,282	97,339	97,781
Unemployment as % of Civilian Labor Force †	Dec '80	7.4%	7.5%	6.0%
Personal Income*	Dec '80n	$ 2,282	$ 2,260	$ 2,028
Leading Indicators Composite Index (1967=100) †	Nov '80	137.6	136.0	135.6
Industrial Production Index (1967=100) †	Dec '80	150.7	149.2	152.5
Net Change in Consumer Installment Credit †	Nov '80	$ 0.84	$ 0.70	$ 2.69
U.S. Merchandise Trade Balance †	Nov '80	−$ 0.79	−$ 0.97	−$ 1.62
Plant and Equipment Expenditures*	1st Q'81	$310.59(a)	$297.30(a)	$291.89
Private Housing Starts (Thousands of Units)*	Dec '80n	1,548	1,563	1,548
New Construction Expenditures*	Nov '80	$ 231.8	$ 226.2	$ 239.4
Total Business Inventories †	Nov '80	$ 458.2	$ 456.5	$ 426.0
Total Business Sales †	Nov '80	$ 329.1	$ 325.8	$ 298.9

* Seasonally adjusted annual rate.

† Seasonally adjusted.

n-Newly reported figure.

a-Anticipated.

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sales of tractors and even surpassing year-earlier levels. Sales of combines registered a slight improvement in November and December.

Although demand for farm machinery will continue to be pinched in the near term by tight credit and high interest rates, prospects for significantly improved farm income stemming from sharply higher returns on crops and livestock are expected to continue to boost sales of agricultural machinery. Last year's farm income was $23.4 billion, off almost 30 per cent from the previous year. As a consequence, farmers were forced to get by with old equipment which caused a 14 per cent drop in tractor sales and a 20 per cent slide in the sales of combines. Most of the retreat in sales took place during the prime selling seasons: the second quarter for tractors, and in August and September for combines.

. . . Cause Interest Rates To Gyrate

One of the more recent examples of the volatility which has come to characterize financial market developments occurred during the past month. Between mid- and end-December, both short- and long-term interest rates dropped sharply, by as much as four full percentage points, before rebounding somewhat in January. While the slide apparently

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (1/7/81)	114,733	– 1,595	+23,220
New York City (1/7/81)	29,154	+ 505	+ 9,316
Commercial Paper (1/7/81)	124,132	+ 1,069	+ 8,702

Bank Loans

(Millions of Dollars)

Weekly Reporting Large Commercial Banks	**Commercial and Industrial Loans** Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/7/81)	173,191	– 1,914	+12,908
New York City (1/7/81)	51,243	– 632	+ 3,738

	Total Loans Gross Adjusted Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/7/81)	432,374	– 2,407	+28,438
New York City (1/7/81)	103,339	– 1,607	+13,138

Financial Markets

	Friday 1/23/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	16.54%	+ .62	+ 4.00
180-Day Bills†	16.00	+ .80	+ 3.40
Longest Bills†	14.75	+ .92	+ 2.71
Recent Issues:			
15 1/8s 12/31/82	13.72	+ .70	
14s 12/31/84	13.21	+ .31	
13s 11/15/90	13.07	+ .49	
12 3/4s 11/15/10	12.38	+ .23	
Municipals:			
Bond Buyer–20 Bond Index* (1/22/81)	9.68%	+ .11	+ 2.35
Blue List Total ($ Million)	$ 649	+ $ 60	– $ 181
30-Day Visible Supply ($ Million)	$1,743	+ $475	+ $ 455
Total	$2,392	+ $535	+ $ 274
Corporates:			
Moody's Aa Composite (1/22/81)	13.65%	+ .12	+ 1.95
Money Mgr.–30-Day Supply ($ Million)	$4,471	+ $973	+ $2,815
Stocks:			
Dow-Jones Averages:			
Industrials	940.19	– 33.10	+ 64.08
Transportation	391.61	– 10.37	+ 115.95
Utilities	111.76	– 1.46	+ 4.18
65 Stocks	365.27	– 10.65	+ 51.43
Standard and Poor's 500 Stocks	130.23	– 4.54	+ 16.62
N.Y.S.E. Composite Index	74.72	– 2.61	+ 9.45
N.Y.S.E. Avg. Daily Vol. for Week (000's)	38,964	– 3,890	+ 12,182

* 46% Taxable equivalent 17.93%.

† Bond equivalent.

International Rates

	Friday 1/23/81	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	19.25%	19.75%
1 month	19.25	19.81
3 month	18.88	18.75
6 month	17.25	17.25
1 year	16.13	15.75
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	13.05%	13.20%
Long Term (7 to 15 yrs.)	12.95	13.00

FOREIGN EXCHANGE SPOT RATES New York Opening (1/23/81)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.03065	32.63
Canada	.8388	1.1922
Denmark	.1602	6.2400
France	.2133	4.6885
Germany	.4929	2.0288
Italy	.001037	963.75
Japan	.004951	201.95
Mexico	.04277	23.38
Netherlands	.4532	2.2065
Switzerland	.5443	1.8370
U.K.	2.4048	.4158

reflected a growing euphoria among financial market participants regarding the ability of the new Administration to put Federal government finances in order and the success of the Federal Reserve in slowing money supply growth, confidence soon began to erode in light of dismal budget deficit estimates for both fiscal years 1981 and 1982 and a bulge in the money supply in the first week of January. Moreoever, it seems likely that the continued strong pace of economic activity, the ongoing need for careful management of the money supply, buoyant business loan demand, together with deeply embedded inflation rate expectations, will preclude deep interest rate declines in the months ahead.

A drastic slowing of money supply growth in the fourth quarter of 1980 increased expectations of lower interest rates ahead. During the month ending December 31, for example, M-1A contracted at an almost 16 per cent seasonally-adjusted annual rate while M-1B dropped by a shade more than 13 per cent. With M-1B standing at $406.8 billion at year-end, the Federal Reserve did achieve its five per cent fourth quarter growth target; during the fourth quarter as a whole, M-1B averaged $410.9 billion, only slightly above the year-over-year upper target boundary of $409.5 billion. However, the record-breaking surge in M-1B during the first week in January (apparently reflecting the nationwide introduction of NOW accounts) raised new doubts as to the ability of the monetary authorities to curb the growth of the monetary aggregates and raised the possibility of further central bank monetary restrictions.

Inflation rate performance, although it may improve slightly, still remains a seemingly intractable problem. The rate of consumer price inflation remains deeply mired in double-digit territory, while the implicit GNP deflator deteriorated substantially in the fourth quarter. Although the rate of producer price inflation has been generally more moderate in 1980 than in 1979, weather-related food price increases and ever-escalating energy prices ensure that pronounced consumer price inflation relief is months away, necessitating continuing monetary restraint.

Finally, short-term business loan demand, especially at the nation's commercial banks, continues to surge, reflecting the relatively weak state of the bond markets, stepped-up inventory accumulation (both voluntary and involuntary), borrowing in expectation of even higher interest rates and some borrowings by corporations for working capital. During the 13 weeks ending January 7, 1981, commercial and industrial loans outstanding at large weekly reporting banks have expanded at a more than 16 per cent seasonally-adjusted annual rate and at an almost nine per cent annual rate during the past month. Outstanding commercial paper for nonfinancial corporations, in contrast, continues to drop, contracting at a seasonally-adjusted 67 per cent annual rate during the same 13 weeks and at a 54 per cent annual rate during the past four weeks. H

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The Manufacturers Hanover Financial Digest

Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, FEBRUARY 2, 1981 VOLUME XVIII, NUMBER 5

No Quick Cure From Decontrol

As promised during the election campaign, President Reagan lifted all controls on crude oil prices and allocations last week. These had been in effect since the Nixon Administration's general wage-price freeze imposed in August, 1971. This action will undoubtedly boost prices at retail—but these increases would have occurred anyway, albeit more gradually. Full decontrol was scheduled to occur by October 1. The impact of President Reagan's action is expected to be slight in the near term. Even before total decontrol, nearly three-quarters of all domestically produced crude was free to be priced at market levels. Thus, the amount of oil subject to an immediate price rise is not all that large.

What is more, sizable stocks in our nation's refineries will further cushion the price impact of decontrol. For example, there are now 52 days' supply of distillate fuel oil, which includes home heating oil, and about 40 days' supply of motor gasoline. Consequently, with inventories bulging and consumer conservation efforts expected to intensify, the oil producers may be reluctant to pass quickly on to the public the full price effects of oil decontrol. In addition, if weather patterns return to normal in the Northeast—to date the number of degree days is running 34 per cent above comparable year-ago levels—then demand for residential heating oil will soften, preventing producers from lifting prices significantly above present quotes.

Although the acceleration of decontrol will boost oil company revenues (and government tax revenues in the form of both income and windfall profits taxes), no immediate increase in supplies of domestic crude oil or additional drilling above that already scheduled should be expected. The oil producers stepped-up sharply their search for new oil in many areas last year, after the decontrol program started. As a result, drilling activity is already at record-high levels, increasing by more than 56 per cent in 1980. But despite the enhanced exploration activity, domestic oil production in 1980 still stood 6½ per cent below 1973 production levels.

Hence, last week's move by President Reagan may be viewed initially more as a symbolic first step toward easing government regulation of business. It will allow the market mechanism to allocate gasoline, home heating fuel and other refined products, rather than government fiat. While no significant alteration of supplies is expected in the near future, recent history indicates that higher prices will eventually induce more conservation by consumers both as motorists and as homeowners.

Inflation Lingers On

As noted above, this program will add somewhat to our already high inflation rate. Exactly by how much is uncertain, since it depends on how quickly and by how much oil companies raise prices. Estimates vary but an addition of 0.3 to 0.5 per cent in 1981 is not unreasonable. Meanwhile, inflation continued its double-digit rate of rise in 1980, averaging 13.4 per cent, compared with 11.3 per cent the year before. In December, prices of energy products were one of the major contributors to the 1.1 per cent climb in the consumer price index—the largest jump since the 1.4 per cent increase registered last March. Energy prices surged by 1.5 per cent in December, paced by a 3.4 per cent increase in the cost of home heating oil. Housing costs continued their upward spiral which began in October as a result of rising interest rates. Financing costs jumped by 4.1 per cent, reflecting the sharp rise in mortgage rates while home purchase prices remained the same.

The cost of food went up sharply both at the supermarket counter and when eating out. Prices of grocery store foods rose by 1.1 per cent, propelled by soaring prices of pork, poultry, fish and eggs, more than offsetting the decline in beef prices which dropped by 0.9 per cent. Similarly, prices of vegetables, cereals, bakery items, fresh milk, sugar, artificial sweeteners and peanut butter posted substantial increases. The index for restaurant meals advanced by one per cent.

Balancing The Federal Budget . . .

One of the more persistent problems that the new Administration has focused on is the dismal state of Federal government finances. Clearly, such attention is not misplaced. In recent months, the budget outlook has worsened substantially due to a wide

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variety of factors. These range from the continued swelling of transfer payments due to inflation, the increasing likelihood of another dip in economic activity and the financial burden of servicing an ever-expanding Federal debt at prevailing high interest rates. What is more, chances of cutting taxes and stepping up defense spending are becoming increasingly likely, clouding even further the prospects for an early balancing of the Federal budget.

Indicative of the magnitude of the problem was the December budget outcome. Expenditures exceeded revenues by $7.3 billion—almost five times the size of the December, 1979 deficit. This brought the fiscal year-to-date red ink total to a whopping $33.6 billion, more than $9 billion higher than the comparable period in fiscal 1980. If these trends persist, the budget deficit for the fiscal year as a whole could reach almost $80 billion—the largest fiscal year deficit ever posted. In this event, Federal government borrowing requirements could well exceed $100 billion, including the financial requirements of the off-budget agencies.

. . . Remains An Elusive Goal

The big question, of course, is: Will these trends persist? Ominously, the answer appears to be "yes." For it now seems that the gap between spending and revenues may widen in the coming months. The

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 1/21/81	$ Change Since	
		Week Ago	Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	128.706	− .576	+ 2.530
Loans to Depository Inst.	1.419	+ .087	+ .216
Float	3.880	− .609	− 1.386
Total Reserve Bank Credit	143.232	− .459	+ 5.169
Treasury Deposits with Federal Reserve Banks	3.109	+ .024	+ .036
Currency Outside Banks	118.043	− 1.468	+ 8.466
Member Bank Reserves:			
Required	42.180	+ .940	− 2.965
Excess (Deficiency)	.737	− .004	+ .611
Total Reserves Held	42.917	+ .936	− 2.354
Net Borrowed Reserves	.559	+ .073	− .441
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	92.520	− .463	+12.328

		% Change Since	
Monetary Aggregates †		Three Months Ago*	Year Ago
M-1A	370.8	+ 8.8‡	+ 1.8‡
M-1B	416.2	+ 4.1‡	+ 7.0‡
M-2 (December '80)	1,674.8	+ 7.6	+ 9.8
L (October '80)	2,323.5	+ 11.8	+ 9.0

†Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 1/30/81	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	14.78%	13.85%	12.64%
* Federal Agencies	15.36	15.65	14.50
* Project Notes—Taxfree (46% Taxable Equivalent)	12.04	12.50	13.43
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	16.50	15.25	

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	16.00%	Mar.	16.40%
15- 29 days	16.13	Apr.	15.90
30- 59 days	16.25	May	15.75
60- 89 days	16.00	Jun.	15.40
90-179 days	14.00	Jul.	14.90
180-270 days	13.00	Aug.	14.75

‡Industrial Paper—Prime			
30- 89 days	16.38%	† Federal Funds Effective Rate	17.20%
90-120 days	16.00		

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'80	$ 2,741	$ 2,637	$ 2,496
Gross National Product (1972 Dollars)*	4th Q'80	$ 1,490	$ 1,472	$ 1,491
Percent Change, Annual Rate	4th Q'80	5.0%	2.4%	0.6%
Change in Consumer Prices (all urban consumers)*	Dec '80	13.2%	12.0%	14.4%
Change in Producer Prices*	Dec '80	7.2%	7.2%	9.6%
Civilian Employment (Thousands of Persons) †	Dec '80	97,282	97,339	97,781
Unemployment as % of Civilian Labor Force †	Dec '80	7.4%	7.5%	6.0%
Personal Income*	Dec '80	$ 2,282	$ 2,260	$ 2,028
Leading Indicators Composite Index (1967=100) †	Dec '80n	136.6	137.7	135.2
Industrial Production Index (1967=100) †	Dec '80	150.7	149.2	152.5
Net Change in Consumer Installment Credit†	Nov '80	$ 0.84	$ 0.70	$ 2.69
U.S. Merchandise Trade Balance†	Nov '80	−$ 0.79	−$ 0.97	−$ 1.62
Plant and Equipment Expenditures*	1st Q'81	$310.59(a)	$297.30(a)	$291.89
Private Housing Starts (Thousands of Units)*	Dec '80	1,548	1,563	1,548
New Construction Expenditures*	Nov '80	$ 231.8	$ 226.2	$ 239.4
Total Business Inventories†	Nov '80	$ 458.2	$ 456.5	$ 426.0
Total Business Sales†	Nov '80	$ 329.1	$ 325.8	$ 298.9

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

economy could experience a more pronounced weakening than expected. Defense spending may well be increased sharply above present levels. Additionally, despite the added emphasis being placed on national defense, the largest proportion of the spending increases posted during the first quarter of fiscal year 1981—almost one half of the $22 billion year-over-year gain—was accounted for by stepped-up income security outlays, of which inflation-indexed Social Security payments are a major component. By contrast, increased defense outlays accounted for only about one quarter of the spending gain.

Thus, with income security outlays already rising rapidly, additional countercyclical spending associated with the weakening economy, such as extended unemployment insurance benefits, and higher defense spending would push expenditure totals even higher than the $670 billion now estimated. And if, on top of this, an across-the-board personal income tax cut is implemented (and revenues shrink accordingly, a development that the immediate decontrol of domestic oil prices will not offset), the budget outlook becomes almost too dismal to contemplate. This would have profound implications both for the financial markets and for the ability of the new Administration to balance the Federal budget—even within the next four years.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (1/14/81)	114,256	– 527	+21,936
New York City (1/14/81)	28,877	– 277	+ 8,826
Commercial Paper (1/14/81)	128,569	+ 2,646	+13,095

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/14/81)	173,118	– 111	+14,430
New York City (1/14/81)	51,558	+ 315	+ 4,293

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/14/81)	429,197	– 3,183	+29,767
New York City (1/14/81)	102,194	– 1,145	+11,759

Financial Markets

	Friday 1/30/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	14.55%	– 1.99	+ 1.90
180-Day Bills†	13.58	– 2.42	+ .73
Longest Bills†	12.48	– 2.27	+ .04
Recent Issues:			
15 1/8s 12/31/82	13.70	– .02	
14s 12/31/84	13.09	– .12	
13s 11/15/90	12.60	– .47	
12 3/4s 11/15/10	12.23	– .15	
Municipals:			
Bond Buyer—20 Bond Index* (1/29/81)	9.91%	+ .23	+ 2.39
Blue List Total ($ Million)	$ 630	– $ 19	– $ 236
30-Day Visible Supply ($ Million)	$1,696	– $ 47	+ $ 620
Total	$2,326	– $ 66	+ $ 384
Corporates:			
Moody's Aa Composite (1/29/81)	13.64%	– .01	+ 1.77
Money Mgr.—30-Day Supply ($ Million)	$3,713	– $758	+ $1,973
Stocks:			
Dow-Jones Averages:			
Industrials	947.27	+ 7.08	+ 65.79
Transportation	402.16	+ 10.55	+ 118.66
Utilities	112.82	+ 1.06	+ 2.50
65 Stocks	370.36	+ 5.09	+ 51.51
Standard and Poor's 500 Stocks	129.55	– .68	+ 14.43
N.Y.S.E. Composite Index	74.27	– .45	+ 8.00
N.Y.S.E. Avg. Daily Vol. for Week (000's)	38,822	– 142	– 15,790

* 46% Taxable equivalent 18.35%.

† Bond equivalent.

International Rates

	Friday 1/30/81	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	17.50%	19.25%
1 month	17.63	19.25
3 month	17.38	18.88
6 month	16.63	17.25
1 year	15.63	16.13
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	12.95%	13.05%
Long Term (7 to 15 yrs.)	12.85	12.95

FOREIGN EXCHANGE SPOT RATES **New York Opening (1/30/81)**	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02948	33.92
Canada	.8360	1.1962
Denmark	.1537	6.5050
France	.2050	4.8780
Germany	.4721	2.1180
Italy	.0009980	1002.00
Japan	.004857	205.90
Mexico	.04272	23.41
Netherlands	.4354	2.2970
Switzerland	.5187	1.9280
U.K.	2.3820	.4198

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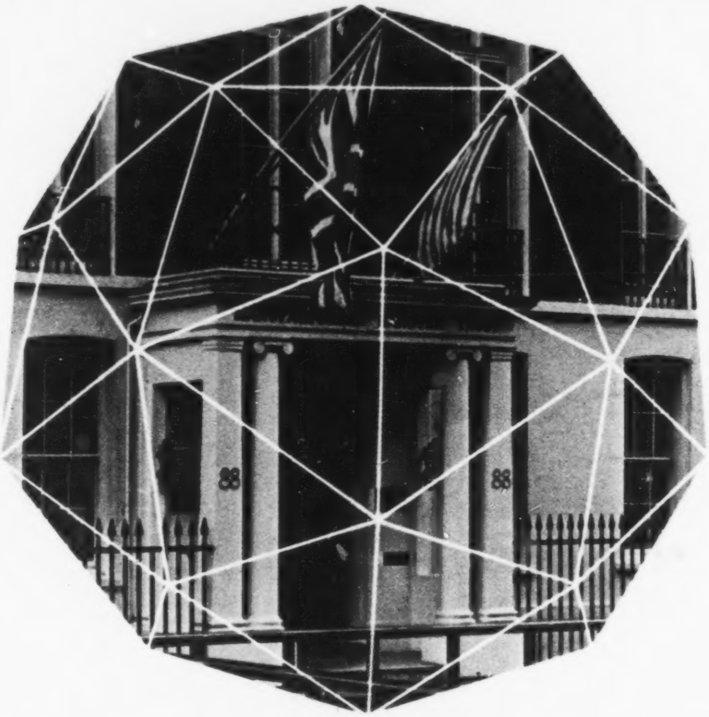

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The Manufacturers Hanover
Financial Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, FEBRUARY 9, 1981
VOLUME XVIII, NUMBER 6

U.S. Export Performance Improves . . .

The United States' trade deficit jumped during the last month of 1980 as oil imports surged. In December, oil imports were 22.6 per cent higher than in November. This resulted in a trade deficit (on the census basis) of $2.98 billion after a deficit of $1.66 billion in November. In spite of the rise in the December deficit, the trade account for the year 1980 as a whole showed a substantial improvement over 1979. Based on preliminary figures for December, the 1980 trade deficit was $32 billion after a $37 billion deficit the year before. For the year 1980, merchandise exports were $221 billion, up 21.4 per cent from 1979, while imports increased 15.5 per cent to $253 billion. If the approximately $74 billion worth of petroleum imports into the United States in 1980 were omitted, then the trade balance would have been in substantial surplus.

Exports continued to show broad-based strength last year in spite of lower growth or incipient recession among our major trading partners. Shipments of agricultural products overseas, particularly wheat and soybeans, increased 5.1 per cent over an already strong November level. Exports of manufactured goods overall rose a very modest 0.1 per cent after declining 2.9 per cent in the prior month, but aircraft sales rose substantially as did exports of crude materials and chemicals.

The excellent export performance of the United States in 1980 reflected slow growth in the United States which led businessmen to increase exports at a time when the economies of many of our trading partners were still expanding. Further, because U.S. exports include large agricultural and capital goods components, they benefited from the overall strength of the dollar during most of 1980. Many large capital export items (e.g. aircraft and computers) are ordered years before delivery, hence a strengthening currency increases the value of exports relative to imports which are purchased with currencies that are cheaper in terms of dollars.

With regard to the $32 billion trade deficit for 1980, it should also be noted that reporting on the revised census basis (which includes imports on a c.i.f. basis) tends to overstate the actual trade deficit. For example, if the insurance and freight component of import costs is removed, the 1980 trade deficit is only $20.5 billion. The use of imports on a c.i.f. basis is to conform to an international agreement to ensure comparability with other trading nations.

The outlook for U.S. exports in 1981 is for no further improvement—indeed, the trade deficit may widen. Most of our major trading partners anticipate either recessions or at best lower growth in 1981, discouraging imports. A substantial portion of U.S. exports in 1980 resulted from agricultural production shortfalls elsewhere in the world, which may or may not recur in 1981. Further, the absorptive capacity of the OPEC countries for imports is growing less rapidly. Even though the slow growth expected for the U.S. economy this year may discourage imports, the dollar is expected to remain relatively strong against most foreign currencies at least during the early part of 1981. This might offset downward pressures on imports—while cutting back exports due to their relatively high price.

. . . German Export Growth Slows . . .

While exports have been rising faster than imports in percentage terms in the United States, the opposite is true in West Germany. With the value of exports equivalent to over 25 per cent of West German GNP in recent years compared with just over eight per cent for the U.S., a slowdown in the growth of German exports has a profound effect on that country's economic growth. This calls into question the "locomotive" theory of world economic recovery. The idea behind this theory is that by stimulating strong domestic growth, powerful economies such as West Germany, the United States or Japan would increase imports, thereby inducing growth in weaker countries. This theory has run aground on the shoals of rising German inflation which resulted in low growth anti-inflationary government policies and a weakening currency which have made imports, particularly oil, more expensive. A huge current account deficit has increased pressure on producers to increase exports of goods and services and has discouraged increasing

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imports. Thus, remedial domestic policies are directly opposite to those which a locomotive policy would call for.

Although West Germany generated a $4.8 billion trade surplus last year, it was only about 37 per cent of the 1979 trade surplus of $13 billion. The monthly trade statistics fluctuated widely throughout the year, ranging from a trade surplus of $1 billion in March to an August trade deficit of $74 million.

West German exports rose 11 per cent in 1980 while imports rose 17 per cent, largely due to increased energy import prices. The slowing of export growth in Germany is attributable to a general weakening of world trade but particularly to lower growth in Western Europe which takes almost two-thirds of German exports. But in many products including automobiles, chemicals, electronics and other high technology items, the Germans are also beginning to feel the impact of intensive Japanese competition in their traditional markets.

. . . As Japan's Exports Boom

Based on preliminary figures, it appears that Japan ended 1980 with a trade surplus of $2.1 billion. This followed a $1.2 billion surplus on trade in Decem-

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 1/28/81	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	125.727	– 2.979	– .942
Loans to Depository Inst.	1.793	+ .374	– .026
Float	3.390	– .260	– .224
Total Reserve Bank Credit	140.346	– 2.656	+ 4.575
Treasury Deposits with Federal Reserve Banks	3.498	+ .389	+ .459
Currency Outside Banks	116.930	– 1.115	+ 8.145
Member Bank Reserves:			
Required	40.651	– 1.529	– 3.798
Excess (Deficiency)	.557	+ .050	+ .314
Total Reserves Held	41.208	– 1.479	– 3.484
Net Borrowed Reserves	1.099	+ .310	+ .390
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	93.027	+ .507	+11.228

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M-1A	367.3	– 13.5‡	+ 0.7‡
M-1B	413.4	+ 4.0‡	+ 7.2‡
M-2 (December '80)	1,674.6	+ 7.3	+ 9.7
L (November '80)	2,346.5	+ 11.7	+ 9.8

†Seasonally adjusted.

* Seasonally adjusted annual rate.

‡Four-week moving average.

New York Money Market

Offering Rates 2/6/81	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	15.00%	14.13%	12.96%
* Federal Agencies	15.07	15.33	14.76
* Project Notes—Taxfree (46% Taxable Equivalent)	11.11	12.41	13.15
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	16.40	15.95	

‡Finance Company Paper—Prime	
5- 14 days	15.50%
15- 29 days	16.13
30- 59 days	16.00
60-179 days	15.50
180-270 days	14.25

‡* Bankers' Acceptances	
Mar.	16.35%
Apr.	15.95
May	15.65
Jun.	15.50
Jul.	15.15
Aug.	14.85

‡Industrial Paper—Prime	
30- 89 days	16.38%
90-120 days	15.50

†Federal Funds Effective Rate 16.90%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'80	$ 2,741	$ 2,637	$ 2,496
Gross National Product (1972 Dollars)*	4th Q'80	$ 1,490	$ 1,472	$ 1,491
Percent Change, Annual Rate	4th Q'80	5.0%	2.4%	0.6%
Change in Consumer Prices (all urban consumers)*	Dec '80	13.2%	12.0%	14.4%
Change in Producer Prices*	Dec '80	7.2%	7.2%	9.6%
Civilian Employment (Thousands of Persons)†	Jan '81n	97,696	97,700	97,708
Unemployment as % of Civilian Labor Force†	Jan '81n	7.4%	7.4%	6.2%
Personal Income*	Dec '80	$ 2,282	$ 2,260	$ 2,052
Leading Indicators Composite Index (1967=100)†	Dec '80	136.6	137.7	135.2
Industrial Production Index (1967=100)†	Dec '80	150.7	149.2	152.5
Net Change in Consumer Installment Credit†	Nov '80	$ 0.84	$ 0.70	$ 2.69
U.S. Merchandise Trade Balance†	Dec '80n	–$ 2.06	–$ 0.79	–$ 2.87
Plant and Equipment Expenditures*	1st Q'81	$310.59(a)	$297.30(a)	$291.89
Private Housing Starts (Thousands of Units)*	Dec '80	1,548	1,563	1,548
New Construction Expenditures*	Dec '80n	$ 241.6	$ 231.6	$ 244.0
Total Business Inventories†	Nov '80	$ 458.2	$ 456.5	$ 426.0
Total Business Sales†	Nov '80	$ 329.1	$ 325.8	$ 298.9

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

ber and a $763 million surplus in November—the highest for any month in 1980. The 1980 trade surplus was 14 per cent above the surplus for 1979 but considerably below the 1978 surplus of $25.3 billion. This sharp erosion in the trade balance has resulted largely from skyrocketing energy import costs to which the Japanese economy is extraordinarily sensitive.

Between December, 1979 and October, 1980, Japanese export volume grew at double-digit rates. In October, export volume was 20 per cent above the same month the year before. Again, however, as with United States' exports, a darker picture for worldwide economic growth is expected to rub some of the glitter off of Japanese export performance in the near future. Further, a strong yen, which raises the cost of Japanese exports to the buyer, and growing resistance to market penetration by Japanese exports to the United States and Western Europe will also serve to slow their growth. Finally, Japanese economists expect a resurgence of domestic demand as the economy grows at an expected 4.5 to five per cent rate in 1981. This will reduce export pressure to some degree. **H**

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (1/21/81)	109,671	+ 1,697	+23,499
New York City (1/21/81)	29,343	+ 466	+ 9,479
Commercial Paper (1/21/81)	129,701	+ 1,215	+12,204

Bank Loans

(Millions of Dollars)

Weekly Reporting Large Commercial Banks	Commercial and Industrial Loans Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/21/81)	163,133	− 1,111	+12,835
New York City (1/21/81)	51,082	− 470	+ 4,196

	Total Loans Gross Adjusted Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/21/81)	402,559	− 452	+27,705
New York City (1/21/81)	101,360	− 849	+13,871

Financial Markets

	Friday 2/6/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	16.10%	+ 1.55	+ 3.50
180-Day Bills†	15.50	+ 1.92	+ 2.56
Longest Bills†	14.55	+ 2.07	+ 1.74
Recent Issues:			
$13^{5}/_{8}$s 1/31/82 (When Issued)	13.85	NA	
$13^{1}/_{4}$s 8/15/83 (When Issued)	13.50	NA	
13s 11/15/90	13.12	+ .52	
$12^{3}/_{4}$s 11/15/10	12.75	+ .52	
Municipals:			
Bond Buyer—20 Bond Index* (2/5/81)	9.90%	− .01	+ 2.19
Blue List Total ($ Million)	$ 607	− $ 23	− $ 164
30-Day Visible Supply ($ Million)	$2,318	+ $622	+ $1,245
Total	$2,925	+ $599	+ $1,081
Corporates:			
Moody's Aa Composite (2/5/81)	13.72%	+ .08	+ 1.44
Money Mgr.—30-Day Supply ($ Million)	$3,943	+ $230	+ $2,511
Stocks:			
Dow-Jones Averages:			
Industrials	952.30	+ 5.03	+ 56.65
Transportation	408.64	+ 6.48	+ 102.84
Utilities	112.20	− .62	+ .87
65 Stocks	373.01	+ 2.65	+ 43.42
Standard and Poor's 500 Stocks	130.60	+ 1.05	+ 12.65
N.Y.S.E. Composite Index	74.83	+ .56	+ 7.26
N.Y.S.E. Avg. Daily Vol. for Week (000's)	45,384	+ 6,562	− 5,160

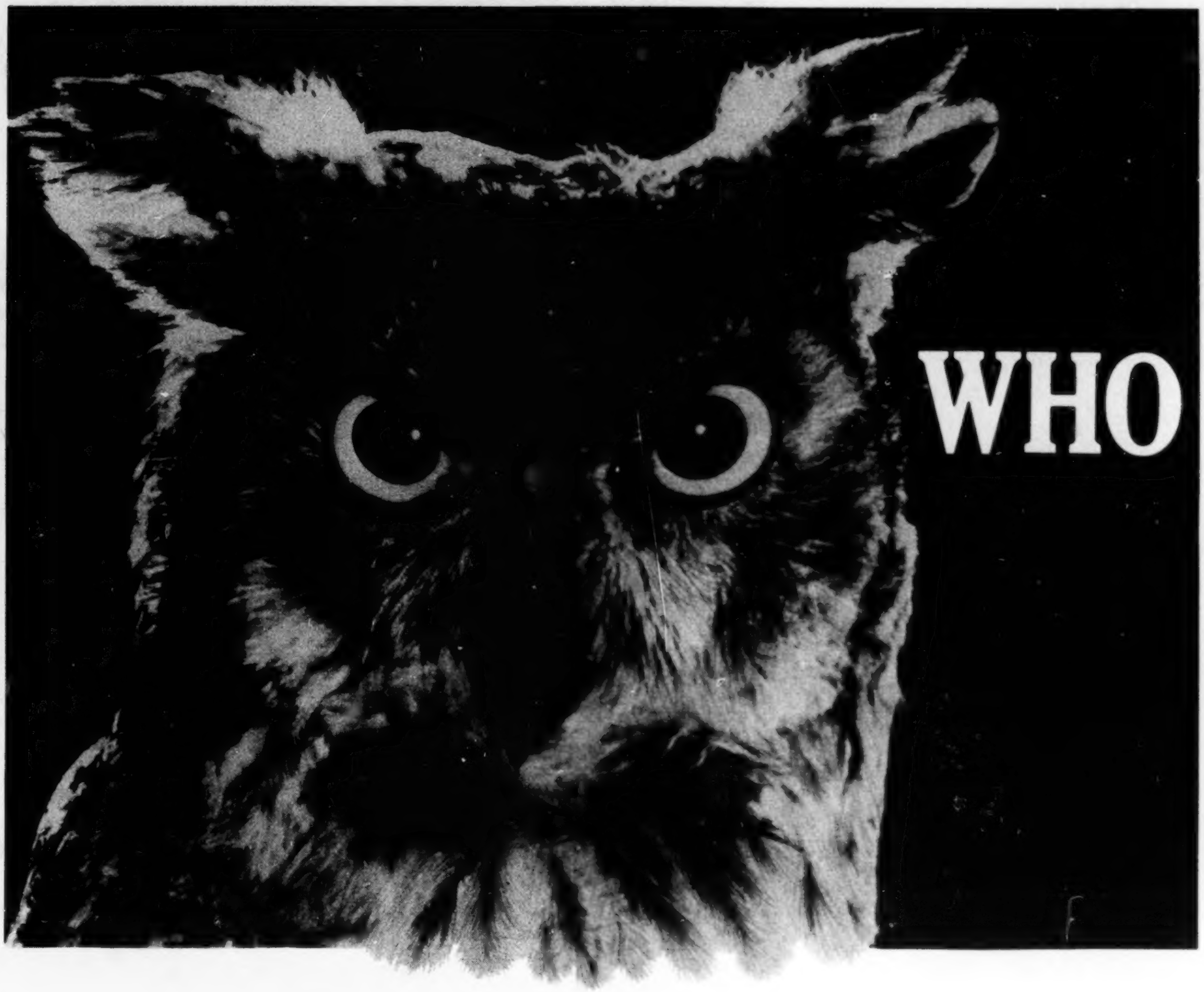
* 46% Taxable equivalent 18.33%.

† Bond equivalent.

International Rates

	Friday 2/6/81	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	17.25%	17.50%
1 month	17.56	17.63
3 month	17.44	17.38
6 month	16.88	16.63
1 year	15.81	15.63
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	13.20%	12.95%
Long Term (7 to 15 yrs.)	13.05	12.85

FOREIGN EXCHANGE SPOT RATES New York Opening (2/6/81)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02909	34.38
Canada	.5026	1.9898
Denmark	.1520	6.5800
France	.2026	4.9350
Germany	.4664	2.1440
Italy	.0009794	1021.00
Japan	.004924	203.10
Mexico	.04257	23.49
Netherlands	.4297	2.3270
Switzerland	.5149	1.9420
U.K.	2.3360	.4281



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The Manufacturers
Hanover
Financial
Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

FRIDAY, FEBRUARY 13, 1981
VOLUME XVIII, NUMBER 7

The Diagnosis Is Right . . .

Those economists who have criticized President Reagan's economic talk can be divided into two camps. The first disagrees with his diagnosis of the state of the economy today, while the second criticizes his prescription to cure our ills. Some economists are in both camps, in that they don't think we are in such bad shape today and even if we were we could not get out of it by implementing the President's proposals. Others agree with his assessment, but might take issue with some of the specifics of his program.

From here, it would seem as though the President correctly identified the current economic situation as a "mess." To be sure, unemployment is nowhere near as high as it was during the Great Depression. However, interest rates are nowhere near as low as they were at that time because we have 12 per cent inflation today whereas prices actually fell during the early stages of the Depression. And lest anyone doubt that high rates of inflation and high interest rates can be worrisome, a look at the nation's two key industries, autos and housing, will dispel that very quickly.

After falling ten per cent in 1979, sales of domestically produced automobiles plunged almost 20 per cent last year to a 20-year low. Housing starts fell 14 per cent in 1979 and another 23 per cent in 1980. Countless numbers of homebuilders and new car dealers have gone out of business in the last couple of years and this is having a ripple effect on a great many industries in the U.S.

. . . But The Prescription Is Risky

As for the President's plan for dealing with this "mess," there is no quarrel with the idea of reducing taxes, especially those paid by business and investors. This is needed to stimulate capital formation and encourage spending on newer, more modern machinery and equipment so that productivity gains can arise. However, it would seem to be taking a big risk to cut taxes in the absence of dollar-for-dollar cuts in government spending. This is because the Federal budget is already running a deficit at an annual rate of close to $80 billion so far in the fiscal year (not counting off-budget government-sponsored agencies). Any cut in tax revenues without a commensurate cut in spending has as its immediate effect a widening of the deficit. In turn, this could result in either another inflationary burst of money growth or sharply rising interest rates and a possible credit squeeze. Neither of these developments would be conducive to ending our economic mess—indeed, they might even worsen it.

More rapid inflation would arise if the Federal Reserve expands the supply of money and credit to accommodate the increased demands that would flow from widening Washington's budget deficit. On the other hand, if the Fed does not become more accommodative, then Washington will simply borrow at the expense of the private sector, leaving less money available for small businesses and individuals. This could well produce yet another round of soaring interest rates, and a new credit squeeze.

Of course, one can question whether the President will be able to obtain cuts of any significant magnitude in government spending. This is because he would like to increase defense spending significantly, and a good chunk of nondefense spending is not controllable over a short period of time. Whatever cuts in government spending will occur can only come after the American people have made known their views to the Congress on their attitudes towards cutting government spending that directly benefits whatever special interest group to which they happen to belong. Here, the jury is still out, because the specifics of the President's plan to cut Federal spending will first be released next week.

Corporate Profits Remain Weak . . .

Despite the five per cent rise in the fourth quarter's "real" Gross National Product, corporate profits did not improve much. In fact, according to preliminary estimates, after-tax profits remained relatively flat, growing by only 0.2 per cent quarter-over-quarter. What is more, they were five per cent below the comparable quarter a year ago and almost 13 per cent less than their first quarter peak. The beneficial impact of an increased level of economic activity was almost completely offset by the rise in the cost of doing business, reflecting ongoing high rates of inflation, in general, and escalating labor, energy,

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and financing costs, in particular.

The high rate of inflation also had other negative effects. Put simply, ever-escalating prices caused inventory profits to be overstated and depreciation charge-offs understated. For example, inflation caused the market value of inventories to increase sharply, contributing significantly to profits. Similarly, depreciation charges typically valued plants and equipment at historical rather than current prices, thus causing depreciation allowances to understate the true cost of replacement. As a result, these accounting methods caused profits to include components which do not result from operations but rather from the fact that selling prices are posted at a later date than input prices.

When inflation rates accelerate, these components expand; conversely, they tend to diminish when inflation wanes.

A more realistic way of measuring corporate profitability is by subtracting these unrealizable inventory profits and underdepreciation from book profits to obtain a true picture of earnings from operations. Although after-tax profits declined by less than 3.5 per cent in 1980 from the 1979 level, after these adjustments, operating profits fell by more than seven per cent. At $43.3 billion, the inventory valuation adjustment for 1980 was the largest for any year ever and so was the depreciation allowance at $18.1 billion. Furthermore, when inflation is taken into account—nine per cent as

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 2/4/81	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	125.476	− .251	+ 1.690
Loans to Depository Inst.	1.201	− .592	+ .443
Float	2.973	− .262	− 2.012
Total Reserve Bank Credit	139.558	− .634	+ 4.668
Treasury Deposits with Federal Reserve Banks	3.288	− .210	+ .312
Currency Outside Banks	117.184	+ .250	+ 7.821
Member Bank Reserves:			
Required	40.184	− .467	− 3.040
Excess (Deficiency)	.191	− .209	− .321
Total Reserves Held	40.375	− .676	− 3.361
Net Borrowed Reserves	.885	− .371	+ .755
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	93.081	+ .054	+12.374

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M-1A	366.9	− 18.1‡	− 0.2‡
M-1B	415.1	+ 2.2‡	+ 7.0‡
M-2 (December '80)	1,673.6	+ 7.3	+ 9.7
L (November '80)	2,346.5	+ 11.7	+ 9.8

†Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 2/13/81	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	15.56%	14.78%	13.54%
* Federal Agencies	16.00	15.90	15.00
* Project Notes—Taxfree (46% Taxable Equivalent)	11.57	12.50	13.89
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	16.00	15.00	

‡Finance Company Paper—Prime	
5- 14 days	16.00%
15- 59 days	16.25
60- 89 days	15.75
90-119 days	14.75
120-179 days	14.00
180-270 days	13.00

‡* Bankers' Acceptances	
Mar.	16.65%
Apr.	16.60
May	16.50
Jun.	16.25
Jul.	15.90
Aug.	15.65

‡Industrial Paper—Prime	
30- 89 days	15.25%
90-120 days	16.00

†Federal Funds Effective Rate 16.15%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'80	$ 2,741	$ 2,637	$ 2,496
Gross National Product (1972 Dollars)*	4th Q'80	$ 1,490	$ 1,472	$ 1,491
Percent Change, Annual Rate	4th Q'80	5.0%	2.4%	0.6%
Change in Consumer Prices (all urban consumers)*	Dec '80	13.2%	12.0%	14.4%
Change in Producer Prices*	Jan '81n	10.8%	6.0%	19.2%
Civilian Employment (Thousands of Persons)†	Jan '81	97,696	97,282	97,708
Unemployment as % of Civilian Labor Force†	Jan '81	7.4%	7.4%	6.2%
Personal Income*	Dec '80	$ 2,282	$ 2,260	$ 2,052
Leading Indicators Composite Index (1967=100)†	Dec '80	136.6	137.7	135.2
Industrial Production Index (1967=100)†	Dec '80	150.7	149.2	152.5
Net Change in Consumer Installment Credit†	Dec '80n	$ 1.62	$ 0.84	$ 2.03
U.S. Merchandise Trade Balance†	Dec '80	−$ 2.06	−$ 0.79	−$ 2.87
Plant and Equipment Expenditures*	1st Q'81	$310.59(a)	$297.30(a)	$291.89
Private Housing Starts (Thousands of Units)*	Dec '80	1,548	1,563	1,548
New Construction Expenditures*	Dec '80	$ 241.6	$ 231.6	$ 244.0
Total Business Inventories†	Dec '80n	$ 457.0	$ 458.0	$ 427.0
Total Business Sales†	Dec '80n	$ 332.2	$ 329.0	$ 302.4

* Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

measured by the GNP deflator—the picture worsens further, undermining the quality of earnings even more. However, this earnings decline is not nearly as sharp as the one in 1974 when earnings minus profits from inventories and underdepreciation plummeted by 26.9 per cent.

. . . In Many Industries

Profitability varied greatly between industries, depending on the influence of inflation, high interest rates, energy prices and regulatory developments. Benefiting from the partial decontrol of crude oil prices, as well as the sharp rise in world prices, oil companies recorded spectacular gains at the beginning of 1980. However, during the second half of the year, these increases began to fade, especially for those companies dependent on refining and marketing operations. Bulging inventories of oil and slumping demand for refined products such as gasoline, precluded refiners from fully passing higher acquisition costs onto consumers. Therefore, reduced profitability or in many cases outright losses in this area have more than offset higher profits from crude oil production.

At the other end of the profit picture was the automobile industry and many of its suppliers. The auto companies posted their worst earnings declines in history. In the fourth quarter, the automobile sector incurred another setback as sales declined again due to the resurgence in interest rates, increasing cost of gasoline and the reacceleration of inflation.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (1/28/81)	117,656	+ 1,763	+24,962
New York City (1/28/81)	29,595	+ 301	+ 9,279
Commercial Paper (1/28/81)	130,457	– 150	+12,773

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/28/81)	171,424	– 498	+13,516
New York City (1/28/81)	50,680	– 402	+ 3,684

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/28/81)	425,964	– 2,945	+27,890
New York City (1/28/81)	99,522	– 1,838	+10,149

Financial Markets

	Friday 2/13/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	16.32%	+ .22	+ 3.56
180-Day Bills†	16.15	+ .65	+ 2.94
Longest Bills†	15.01	+ .46	+ 1.98
Recent Issues:			
13$^5/_8$s 1/31/82	14.50	+ .65	
13$^1/_4$s 8/15/84	14.00	+ .50	
13s 11/15/90	13.62	+ .50	
12$^3/_4$s 11/15/10	13.07	+ .32	
Municipals:			
Bond Buyer–20 Bond Index* (2/12/81)	9.99%	+ .09	+ 2.24
Blue List Total ($ Million)	$ 701	+ $ 94	– $ 34
30-Day Visible Supply ($ Million)	$2,246	– $ 72	– $ 130
Total	$2,947	+ $ 22	– $ 164
Corporates:			
Moody's Aa Composite (2/12/81)	13.78%	+ .06	+ 1.20
Money Mgr.–30-Day Supply ($ Million)	$4,088	+ $145	+ $2,840
Stocks:			
Dow-Jones Averages:			
Industrials	931.57	– 20.73	+ 46.59
Transportation	389.37	– 19.27	+ 102.17
Utilities	108.11	– 4.09	– 3.09
65 Stocks	361.04	– 11.97	+ 39.84
Standard and Poor's 500 Stocks	126.98	– 3.62	+ 11.57
N.Y.S.E. Composite Index	72.80	– 2.03	+ 6.66
N.Y.S.E. Avg. Daily Vol. for Week (000's)	37,074	– 8,310	– 16,880

* 46% Taxable equivalent 18.50%.

† Bond equivalent.

International Rates

	Friday 2/13/81	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	17.38%	17.25%
1 month	17.88	17.56
3 month	18.25	17.44
6 month	18.19	16.88
1 year	17.06	15.81
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	13.80%	13.20%
Long Term (7 to 15 yrs.)	13.60	13.05

FOREIGN EXCHANGE SPOT RATES

New York Opening (2/13/81)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02838	35.24
Canada	.8335	1.1998
Denmark	.1486	6.7300
France	.1975	5.0625
Germany	.4553	2.1965
Italy	.0009633	1038.00
Japan	.004864	205.60
Mexico	.04255	23.50
Netherlands	.4194	2.3845
Switzerland	.4984	2.0065
U.K.	2.2975	.4353

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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, FEBRUARY 23, 1981 VOLUME XVIII, NUMBER 8

Some Contradictory Developments . . .

Both short- and long-term interest rates continued to be buffeted by a variety of positive and negative economic developments in recent weeks, with elements of each underlying the near-term outlook. Among the more important: The relatively subdued growth of the monetary aggregates, apprehension over the ability of the Administration to implement substantial nonmilitary spending cuts and, ultimately, balance the Federal budget, contradictory signals emanating from the economy and a fading of business loan demand at the nation's commercial banks. These developments have produced a slight easing of short-term interest rates while, at the same time, exerting strong upward pressures on long rates.

First, the growth of the money supply remains subdued. During the most recent week, for example, M-1A dropped $500 million, bringing the total decline since January 1 to $13.5 billion, while M-1B rose $1.8 billion. Although M-1B has increased by $8 billion since January 1, most of the gain occurred during the first week of the month, and, in fact, this aggregate now stands only slightly above its early-December levels. What is more, this increase is extremely modest when viewed against the backdrop of a $21.6 billion bulge in other checkable deposits outstanding (primarily NOW accounts) during the same period, clearly indicating that the transactions demand for funds has turned sluggish.

While the performance of the monetary aggregates in recent weeks implies that the Federal Reserve will probably not have to tighten monetary policy further over the near term, it is equally unlikely that a more accommodative policy stance will soon be adopted. The central bank is aiming for relatively low monetary growth targets for the first quarter of 1981. For M-1A, this target has been set at 4-1/4 per cent and for M-1B 4-3/4 per cent. Although M-1A has contracted at a more than 45 per cent seasonally-adjusted annual rate during the quarter to date, M-1B has expanded at a 9.1 per cent pace—well above the short-run target set by the Fed.

Second, Federal budget developments have also recently exerted both a positive and a negative influence on the financial markets. On the positive side, prospects for substantial nondefense spending cuts have tended to buoy the markets. In addition, an emerging reluctance by some in Congress to support immediate personal income tax cuts has clouded the prospects for the passage of such tax relief, providing more "good news" to those who favor a postponement of tax cuts which are not simultaneously matched by large spending cuts.

The negative news, in contrast, was highlighted by the announcement of the December, 1980 budget outcome (Financial Digest—February 2, 1981). With income security expenditures—especially inflation-indexed Social Security payments—rising rapidly, spending exceeded revenues by $7.3 billion, almost five times the size of the December, 1979 deficit. This brought the fiscal year to date red ink total to a whopping $33.6 billion, more than $9 billion higher than the deficit posted during the comparable period of fiscal 1980. If these trends persist, the budget deficit for the fiscal year as a whole could reach almost $80 billion, and the associated Federal government borrowing requirements would surge over the $100 billion mark.

. . . Cloud The Interest Rate Outlook

Third, unfolding economic developments added to confusion in the financial markets. Although the drop in the index of leading economic indicators in December and the fading of industrial production in January suggested at least a slowing of economic growth from its robust fourth-quarter pace, retail sales statistics and labor market developments continue to point toward an underlying resiliency in the economy. Specifically, retail sales increased two per cent in January, while total employment was up by 414,000 during the same month.

Finally, short-term business loan demand at the nation's commercial banks has softened. Commercial and industrial loans outstanding at large weekly reporting banks rose at a seasonally-adjusted 4.7 per cent annual rate during the past month, well below the more than 14 per cent annual rate of gain posted during the past 13 weeks. The slowing of loan growth at commercial banks should bolster the money markets, since it can be expected to reduce the scramble by banks for purchased funds.

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Despite the slump in bank loan demand, however, total short-term credit demands (C & I loans plus commercial paper) continued to surge, expanding at a more than 50 per cent, seasonally-adjusted annual rate during the month ending February 4. This gain largely reflects a renewed upturn in commercial paper issued by nonfinancial companies, which during the same four weeks, increased $1.1 billion, adjusted for seasonal variation. Thus, while the slowing of bank loan demand may be "good news" for the financial markets, this development apparently reflects the switching of short-term credit demands from the banks to the commercial paper market, rather than a significant abatement of credit requirements.

Although the likelihood of another drop in real GNP may have receded, any growth is likely to be less than the four per cent gain posted in the fourth quarter. This, in turn, should prompt a modest-sized rally in the financial markets in coming weeks, with short-term interest rates declining irregularly as the economy softens and the demand for funds recedes. The bond markets may also strengthen, but not until the likelihood of the Administration's budget cuts becomes more apparent and the slowing of the pace of economic activity becomes more pronounced. But whether such a rally can be sustained in light of the still dismal inflation outlook and massive Federal government borrowing requirements remains to be seen.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 2/11/81	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	124.596	− .880	+ 1.806
Loans to Depository Inst.	1.113	− .088	− .126
Float	3.502	+ .455	− 1.479
Total Reserve Bank Credit	139.607	− .025	+ 5.142
Treasury Deposits with Federal Reserve Banks	3.926	+ .638	+ .199
Currency Outside Banks	118.082	+ .892	+ 8.092
Member Bank Reserves:			
Required	38.926	− 1.295	− 3.605
Excess (Deficiency)	.230	+ .002	+ .401
Total Reserves Held	39.156	− 1.293	− 3.204
Net Borrowed Reserves	.752	− .096	− .564
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	93.445	+ .364	+13.438

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M-1A	365.7	− 20.9‡	− 1.1‡
M-1B	416.1	+ 1.1‡	+ 6.7‡
M-2 (January '81)	1,683.0	+ 6.6	+ 9.7
L (November '80)	2,346.5	+ 11.7	+ 9.8

† Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 2/20/81	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	14.15%	13.50%	12.60%
* Federal Agencies	15.07	15.36	14.70
* Project Notes—Taxfree (46% Taxable Equivalent)	11.57	11.67	12.78
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	14.75	14.75	

‡ Finance Company Paper—Prime	
5- 14 days	10.00%
15- 29 days	12.75
30- 59 days	14.63
60- 89 days	13.00
90-119 days	14.50
120-179 days	14.00
180-270 days	13.00

‡* Bankers' Acceptances	
Mar.	15.00%
Apr.	14.90
May	14.80
Jun.	14.70
Jul.	14.60
Aug.	14.50

‡ Industrial Paper—Prime	
30- 89 days	15.00%
90-120 days	15.00

† Federal Funds Effective Rate 14.65%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'80	$ 2,732	$ 2,637	$ 2,496
Gross National Product (1972 Dollars)*	4th Q'80	$ 1,487	$ 1,472	$ 1,491
Percent Change, Annual Rate	4th Q'80	4.0%	2.4%	0.6%
Change in Consumer Prices (all urban consumers)*	Dec '80	13.2%	12.0%	14.4%
Change in Producer Prices*	Jan '81	10.8%	6.0%	19.2%
Civilian Employment (Thousands of Persons)†	Jan '81	97,696	97,282	97,708
Unemployment as % of Civilian Labor Force†	Jan '81	7.4%	7.4%	6.2%
Personal Income*	Jan '81n	$ 2,298	$ 2,277	$ 2,077
Leading Indicators Composite Index (1967=100)†	Dec '80	136.6	137.7	135.2
Industrial Production Index (1967=100)†	Jan '81n	151.8	150.9	152.7
Net Change in Consumer Installment Credit†	Dec '80	$ 1.62	$ 0.84	$ 2.03
U.S. Merchandise Trade Balance†	Dec '80	−$ 2.06	−$ 0.79	−$ 2.87
Plant and Equipment Expenditures*	1st Q'81	$310.59(a)	$297.30(a)	$291.89
Private Housing Starts (Thousands of Units)*	Jan '81n	1,585	1,532	1,389
New Construction Expenditures*	Dec '80	$ 241.6	$ 231.6	$ 244.0
Total Business Inventories†	Dec '80	$ 457.0	$ 458.0	$ 426.8
Total Business Sales†	Dec '80	$ 332.2	$ 329.0	$ 302.1

* Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. a-Anticipated.

The Strong Dollar . . .
In spite of occasional small downward adjustments, the United States dollar continues its strong upward trend in a very volatile foreign exchange market. By early last week, the dollar had risen 27 per cent from its level against the German mark in mid-July, 1980. The dollar also reached an all-time peak against the Italian lira on February 16 when the spot rate was 1,038 lire to the dollar. Even the Swiss franc, which has an enviable reputation as a stable store of value, touched two to the dollar, its lowest level in three years, before moving up slightly. The French franc, in spite of a high rate of inflation in France (13.5 per cent in 1980), is at the top of the European Monetary System (EMS). It sold for over five to the dollar last week. And while the pound sterling and the Japanese yen have retained most of their value against the dollar, even these currencies have shown some erosion in recent weeks. The pound, which was worth over $2.44 in early November, had dropped to close to $2.26 by last week. The Japanese yen was at its recent high point in early January when it reached 199 to the dollar. Since then it has fallen to 207 to the dollar.

Why this surprising strength? There is no single, simple explanation, however, an important consideration is the real interest rate differential favoring dollar-denominated assets when compared with other currencies. Even though short-term interest

Short Term Paper Outstanding
(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (2/4/81)	116,542	– 1,128	+23,745
New York City (2/4/81)	29,235	– 360	+ 8,992
Commercial Paper (2/4/81)	130,129	– 298	+11,280

Bank Loans
(Millions of Dollars)

Weekly Reporting Large Commercial Banks	Commercial and Industrial Loans Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/4/81)	171,892	+ 478	+12,796
New York City (2/4/81)	50,845	+ 165	+ 3,066

	Total Loans Gross Adjusted Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/4/81)	426,752	+ 803	+27,305
New York City (2/4/81)	100,987	+ 1,465	+11,486

Financial Markets

	Friday 2/20/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	14.08%	– 2.24	+ .15
180-Day Bills†	13.42	– 2.73	– .96
Longest Bills†	12.56	– 2.45	– 1.96
Recent Issues:			
13$^5/_8$s 1/31/83	13.52	– .98	
13$^1/_4$s 8/15/84	13.22	– .78	
13s 11/15/90	13.06	– .56	
12$^3/_4$s 11/15/10	12.51	– .56	
Municipals:			
Bond Buyer–20 Bond Index* (2/19/81)	10.22%	+ .23	+ 1.76
Blue List Total ($ Million)	$ 715	+ $ 14	+ $ 64
30-Day Visible Supply ($ Million)	$2,234	– $ 12	+ $ 315
Total	$2,949	+ $ 2	+ $ 379
Corporates:			
Moody's Aa Composite (2/19/81)	14.02%	+ .24	+ .96
Money Mgr.–30-Day Supply ($ Million)	$4,547	+ $459	+ $2,998
Stocks:			
Dow-Jones Averages:			
Industrials	936.09	+ 4.52	+ 67.32
Transportation	379.18	– 10.19	+ 90.18
Utilities	107.27	– .84	– 3.66
65 Stocks	358.59	– 2.45	+ 40.04
Standard and Poor's 500 Stocks	126.58	– .40	+ 11.54
N.Y.S.E. Composite Index	72.45	– .35	+ 6.65
N.Y.S.E. Avg. Daily Vol. for Week (000's)	39,166	+ 2,092	– 6,902

* 46% Taxable equivalent 18.93%.

† Bond equivalent.

International Rates

	Friday 2/20/81	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	16.50%	17.38%
1 month	16.13	17.88
3 month	16.25	18.25
6 month	16.25	18.19
1 year	15.50	17.06
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	13.70%	13.80%
Long Term (7 to 15 yrs.)	13.50	13.60

FOREIGN EXCHANGE SPOT RATES

New York Opening (2/20/81)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02948	33.92
Canada	.8355	1.1969
Denmark	.1541	6.4900
France	.2046	4.8875
Germany	.4762	2.1000
Italy	.0009940	1006.00
Japan	.004866	205.50
Mexico	.04257	[illegible].49
Netherlands	.4357	2.2950
Switzerland	.5294	1.8890
U.K.	2.3085	.4332

rates in the U.S. have declined from their recent highs, the dollar has strengthened. The virtual certainty that the U.S. ran a substantial current account surplus in 1980 and the strong probability of an even greater surplus in 1981 add underlying strength to our currency. Foreign exchange markets move on psychological factors as well. Dealers perceive a favorable economic environment under the Reagan Administration and anticipate a period of stable though low growth.

But there are no fixed points in the foreign exchange markets; rates are determined by relative, not absolute factors. Investors have moved from other currencies to the dollar because the economic environment looks relatively better. For example, much of the recent weakness of the German mark is not due to the intrinsic merits of the dollar, but rather because the near-term outlook for the German economy is for recession, relatively high unemployment, high inflation (by German standards) and another large current account deficit, perhaps $10 to $12 billion in 1981 after a $15 billion deficit in 1980. Political uneasiness in Poland and in the Middle East further clouds the situation. Germany's great dependence on imported energy lies at the heart of the problem of the dollar/mark exchange rate. A stronger dollar exacerbates it by adding to the cost of imports (thus increasing the current account deficit) in terms of the mark.

. . . Is A Mixed Blessing

The strength of the dollar is not entirely beneficial to the U.S., either. One of the major contributors to the U.S. current account surplus has been the astonishing growth of exports in the last several years when the dollar was relatively weak, encouraging other countries to buy our goods. Many of our manufactured exports are capital goods (e.g. aircraft, computer, etc.) which have long periods between the time when they are ordered and when they are delivered. We are now reaping the benefits that lag. But the reverse is true as well. A stronger dollar could discourage new orders which may be due for delivery in one or two years. Fortunately, the demand for a substantial part of our exports is relatively inelastic, that is, they tend to be ordered in spite of price increases. Agricultural exports are a case in point, as are essential energy needs. Although the major portion of our agricultural exports is sent to traditional markets year after year, a poor harvest in a major country can result in a sudden and surprising increase in export volume and prices for American farmers.

Another problem which a strong dollar creates particularly in an economy that is growing, albeit slowly, is that it encourages imports into the United States as their relative cost declines in dollar terms. This not only has adverse effects on the U.S. balance of payments, but it also makes U.S.-made products relatively less competitive in the domestic market as well as in overseas markets. Thus, the strong dollar is a mixed blessing. H

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The Manufacturers Hanover
Financial Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, MARCH 2, 1981 VOLUME XVIII, NUMBER 9

Good News From The Federal Reserve . . .

The recently announced money supply growth targets for 1981 demonstrate once again the Federal Reserve's determination to curb the growth of the monetary aggregates and, in so doing, align more closely overall demand for goods and services with the economy's capacity to produce them. Although the central bank basically reaffirmed its previously-cited intention to reduce the upper and lower target ranges for both M-1A and M-1B by one-half percentage point in 1981, substantial adjustments had to be made to the target ranges in light of the nationwide introduction of interest-bearing checking, or NOW, accounts. Despite these adjustments, however, the basic thrust of monetary policy remains the same—slowing money supply growth and, ultimately, the rate of inflation. But whether such a policy stance can be maintained against a backdrop of a rapidly deteriorating Federal government financial position without severely destabilizing the financial markets, is uncertain.

Specifically, the growth of M-1A is to be held within a minus 4.5 to minus 2.0 per cent band while the growth targets for M-1B range from 6.0 to 8.5 per cent, after adjustment of the target ranges for the upsurge in NOW accounts outstanding. While the new target boundaries are somewhat more restrictive than those monitored in 1980, the sharp deceleration of money supply growth which has occurred in recent months has left the Fed well-positioned to meet successfully its new targets without further monetary restraint.

Since the beginning of the year, for example, M-1A has dropped by more than $13 billion, or at an approximately 20 per cent annual rate compared with its fourth quarter, 1980 average. Although M-1B has increased by slightly more than $7.0 billion during the year to date, this represents a very modest 3.1 per cent annual rate of rise since the fourth quarter, 1980. What is more, the relatively sluggish growth of M-1B has occurred against the backdrop of a more than $20 billion bulge in other checkable deposits outstanding (primarily NOW accounts). Clearly, in the absence of the nationwide introduction of NOW accounts, M-1B would probably be collapsing and speculation rampant as to the timing of a significant easing of monetary policy.

. . . But Bad News From The Government

As a result, money supply growth since the beginning of the year has been well below the new minimum targets, facilitating a gradual easing of monetary policy and an almost 4½ percentage point dip in the average Federal funds rate. Unfortunately, the success of the Federal Reserve in restraining money supply growth has not been paralleled by similar improvements in Federal government finances. In January, 1981, expenditures exceeded revenues by $6.9 billion—almost $2.5 billion larger than the January, 1980 deficit. This brought the fiscal year to date red ink total to more than $40 billion, $11.5 billion higher than the comparable fiscal 1980 period. Indeed, if these trends persist, the budget deficit for the fiscal year as a whole will surpass $82 billion, almost $30 billion higher than the fiscal year 1981 deficit currently being projected by the Administration.

Consequently, the gradual easing of short-term interest rates is not expected to proceed either too much further or too much longer. Massive Federal government borrowing requirements will continue to conflict with the efforts of the monetary authorities to restrain money supply growth, providing a significant prop under domestic interest rates. Once again, and in what is becoming an all-too-familiar scenario, the hemorrhage of red ink from Washington will clash with the efforts of the Fed to curb the rate of inflation, a conflict which may well lead to even higher interest rates than before.

Last Year's Export Performance . . .

After a very strong year for American exports in 1980, many exporters are wondering if they can do it again. Slow growth in the economies of our major trading partners and a strong dollar are potent obstacles to improving our export picture. Further, high inflation and rapidly rising raw materials costs (decontrolled domestic oil, for example) are eroding our trade competitiveness.

Although dominated by exports of capital goods, the pattern of U.S. exports is very broadly based both in terms of the wide range of commodities and products exported and by the geographic dispersion of our export markets. Last year's 22 per cent

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growth in total exports was in part attributable to large increases in exports of agricultural commodities. Agricultural exports reached almost $42 billion in 1980 from about $35 billion in 1979. This 20 per cent jump occurred in spite of the partial embargo on grain shipments to the Soviet Union. Non-agricultural exports rose by 22 per cent, led by machinery, chemicals, metals and wood products.

Preliminary figures indicate that our trade surplus with Western Europe jumped from $12 billion in 1979 to $20 billion last year. U.S. trade with the non-oil exporting less-developed countries (LDCs) shifted from a deficit of $3 billion in 1979 to a surplus of $3 billion in 1980. Although trade with the U.S.S.R. fell rapidly as grain shipments were curtailed, it rose with other Eastern Bloc countries. On the other hand, in spite of increased exports, U.S. trade deficits with Canada and Japan, two of our most important trading partners, increased by $500 million and $1.6 billion respectively.

There are a number of reasons for the success of U.S. export trade in 1980. Not the least of these was that the economies of most of our trading partners were still expanding, at least in the first half of the year, as the U.S. economy was declining steeply. But the strengthening dollar was the major contributor to U.S. export growth by improving export prices in terms of most other currencies. The dollar

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 2/18/81	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	126.087	+ 1.491	+ .740
Loans to Depository Inst.	1.145	+ .032	– 1.047
Float	3.826	+ .388	– 1.465
Total Reserve Bank Credit	141.355	+ 1.810	+ 3.882
Treasury Deposits with Federal Reserve Banks	2.832	– 1.094	– .537
Currency Outside Banks	119.846	– 1.767	+ 8.174
Member Bank Reserves:			
Required	39.760	+ .834	– 3.690
Excess (Deficiency)	.365	+ .195	– .177
Total Reserves Held	40.125	+ 1.029	– 3.867
Net Borrowed Reserves	.626	– .186	– .924
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	94.084	+ .639	+12.824
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates†			
M-1A	367.0	– 22.1‡	– 1.7‡
M-1B	418.5	+ 1.3‡	+ 6.4‡
M-2 (January '81)	1,683.0	+ 6.6	+ 9.7
L (November '80)	2,346.5	+ 11.7	+ 9.8

†Seasonally adjusted.

* Seasonally adjusted annual rate.

‡Four-week moving average.

New York Money Market

Offering Rates 2/27/81	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	14.63%	14.80%	14.16%
*Federal Agencies	14.50	14.82	14.76
*Project Notes–Taxfree (46% Taxable Equivalent)	11.02	11.76	13.06
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
*Secondary Market–Prime	15.00	14.75	

‡Finance Company Paper–Prime	
5- 14 days	15.05%
15- 29 days	15.13
30- 59 days	14.50
60- 89 days	14.00
90-179 days	13.75
180-209 days	15.00
210-270 days	12.00

‡* Bankers' Acceptances	
Mar.	14.80%
Apr.	14.80
May	14.80
Jun.	14.80
Jul.	14.80
Aug.	14.65

‡Industrial Paper–Prime	
30- 89 days	14.88%
90-120 days	14.80

†Federal Funds Effective Rate 15.55%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

		Latest Period or End of Period	Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'80	$ 2,732	$ 2,637	$ 2,496
Gross National Product (1972 Dollars)*	4th Q'80	$ 1,487	$ 1,472	$ 1,491
Percent Change, Annual Rate	4th Q'80	4.0%	2.4%	0.6%
Change in Consumer Prices (all urban consumers)*	Jan '81n	8.4%	13.2%	16.8%
Change in Producer Prices*	Jan '81	10.8%	6.0%	19.2%
Civilian Employment (Thousands of Persons)†	Jan '81	97,696	97,282	97,708
Unemployment as % of Civilian Labor Force†	Jan '81	7.4%	7.4%	6.2%
Personal Income*	Jan '81	$ 2,298	$ 2,277	$ 2,077
Leading Indicators Composite Index (1967=100)†	Jan '81n	135.8	136.4	134.7
Industrial Production Index (1967=100)†	Jan '81	151.8	150.9	152.7
Net Change in Consumer Installment Credit†	Dec '80	$ 1.62	$ 0.84	$ 2.03
U.S. Merchandise Trade Balance†	Dec '80	–$ 2.06	–$ 0.79	–$ 2.87
Plant and Equipment Expenditures*	1st Q'81	$310.59(a)	$297.30(a)	$291.89
Private Housing Starts (Thousands of Units)*	Jan '81	1,585	1,532	1,389
New Construction Expenditures*	Dec '80	$ 241.6	$ 231.6	$ 244.0
Total Business Inventories†	Dec '80	$ 457.0	$ 458.0	$ 426.8
Total Business Sales†	Dec '80	$ 332.2	$ 329.0	$ 302.1

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

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had depreciated on a trade-weighted basis by about 7.5 per cent between early 1977 and late 1978 and then began to rise slowly. By last December, it was about back at the early 1977 level, and since that time it has strengthened even further.

Over the last 14 months, the dollar has appreciated five per cent on a trade-weighted basis, but within this average figure, wide individual disparities are hidden. For example, the dollar has appreciated by about 29 per cent against the German mark since January, 1980, but it has depreciated by over 11 per cent against the Japanese yen in the same period.

It takes a long time for changes in a country's exchange rate to be reflected in its trade position. Some of the benefits of earlier weakness of the dollar will continue to be felt in 1981. Capital exports will continue to be the primary beneficiary while consumer exports may already be feeling the pinch of the strong dollar.

. . . Will Be A Tough Act To Follow . . .

Although U.S. exports are expected to grow in volume terms in 1981, they will probably not reach the almost 18 per cent growth of 1980. With lower growth or recession in most of the industrial countries (which took 59 per cent of U.S. exports in dollar terms in 1979), U.S. trade growth will slacken. Specifically, the United Kingdom, which is our

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (2/11/81)	114,613	– 1,823	+22,017
New York City (2/11/81)	28,229	– 1,006	+ 8,013
Commercial Paper (2/11/81)	132,196	+ 2,070	+12,560

Bank Loans

(Millions of Dollars)

Weekly Reporting Large Commercial Banks	Commercial and Industrial Loans		
	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/11/81)	170,055	– 1,837	+ 9,762
New York City (2/11/81)	49,785	– 1,060	+ 1,414

	Total Loans Gross Adjusted		
	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/11/81)	423,165	– 3,587	+24,356
New York City (2/11/81)	99,562	– 1,425	+10,132

Financial Markets

	Friday 2/27/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	14.90%	+ .82	+ .40
180-Day Bills†	14.99	+ 1.57	– .11
Longest Bills†	14.46	+ 1.90	– .88
Recent Issues:			
13⅝s 1/31/83	14.14	+ .62	
13¼s 8/15/84	13.87	+ .65	
13s 11/15/90	13.42	+ .36	
12¾s 11/15/10	12.96	+ .45	
Municipals:			
Bond Buyer–20 Bond Index* (2/26/81)	10.27%	+ .05	+ 1.55
Blue List Total ($ Million)	$ 801	+ $ 86	+ $ 236
30-Day Visible Supply ($ Million)	$1,987	– $247	+ $ 410
Total	$2,788	– $161	+ $ 646
Corporates:			
Moody's Aa Composite (2/26/81)	14.07%	+ .05	+ 1.25
Money Mgr.–30-Day Supply ($ Million)	$3,688	– $859	+ $2,122
Stocks:			
Dow-Jones Averages:			
Industrials	974.58	+ 38.49	+ 111.44
Transportation	392.34	+ 13.16	+ 102.90
Utilities	106.43	– .84	– 3.25
65 Stocks	370.03	+ 11.44	+ 53.02
Standard and Poor's 500 Stocks	131.27	+ 4.69	+ 18.33
N.Y.S.E. Composite Index	75.13	+ 2.68	+ 10.18
N.Y.S.E. Avg. Daily Vol. for Week (000's)	48,722	+ 9,556	+ 7,764

* 46% Taxable equivalent 19.02%.

† Bond equivalent.

International Rates

	Friday 2/27/81	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	15.25%	16.50%
1 month	15.88	16.13
3 month	16.69	16.25
6 month	16.81	16.25
1 year	16.25	15.50
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	14.00%	13.70%
Long Term (7 to 15 yrs.)	13.80	13.50

FOREIGN EXCHANGE SPOT RATES New York Opening (2/27/81)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02874	34.80
Canada	.8326	1.2011
Denmark	.1500	6.6670
France	.1998	5.0050
Germany	.4689	2.1325
Italy	.0009708	1030.00
Japan	.004782	209.10
Mexico	.04243	23.57
Netherlands	.4246	2.3550
Switzerland	.5089	1.9650
U.K.	2.1940	.4558

largest trading partner in Europe, expects another year of economic decline, which could reduce demand for our exports. West Germany, too, expects 1981 to be a recession year and further anticipates a high current account deficit which, by depressing the exchange rate of the mark against the dollar, will discourage imports. A similar outlook applies to Italy as well. Other major importers of U.S. products—France, Switzerland, the Netherlands, among others—also will probably have lower import requirements reflecting a slower pace of economic activity.

The non-oil LDCs which took 29 per cent of U.S. exports in 1979 are expected to cut imports sharply as they struggle to cope with ever-higher oil import costs and to service their already high external debt.

. . . But There Are Bright Spots

But there are significant exceptions to an otherwise dismal export picture. Japan, which took almost 10 per cent of all U.S. exports (in dollar terms) in 1979, will still be a major customer in 1981. Japan expects to grow at about the same rate this year as last. Canada expects to grow modestly in 1981 after declining last year. In 1979 Canada took over 18 per cent of U.S. exports under special trade agreements. The OPEC nations will also continue to import substantial amounts from the U.S., and Mexico will spend a large portion of its oil income on imports from the U.S. In 1979 Mexico took over five per cent of all U.S. exports.

Should any of the other major grain producers experience a poor harvest in 1981, U.S. agricultural exports would expand their already large role in our export picture. As the nations of Western Europe begin to reaccelerate their economic growth in late 1981, they will again begin to pull in imports from the U.S., but the effects of this will probably not be felt until 1982, if then. Nonetheless, on balance, 1981 will be a modestly successful year for American exporters.

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MONDAY, MARCH 9, 1981 VOLUME XVIII, NUMBER 10

The Economy Remains Buoyant . . .

A variety of mixed signals continues to emanate from the economy, clouding the forecast horizon for likely trends in the real GNP, the rate of inflation and interest rates. Although the index of leading economic indicators posted its second consecutive monthly decline in January, the size of the drop was less than that of the month before. What is more, it appears to be too small to suggest the onset of an imminent recession. Similarly, while new factory orders declined slightly in January—their first dip since June—the drop reflected primarily a sharp decline in new orders for defense capital goods. By contrast, private sector new orders increased briskly. And although recent statistics suggest strongly that the single-family housing market remains weak in terms of both new starts and sales, overall housing starts, ballooned by government-subsidized multi-family units, actually increased again in January, defying those pundits who have for so long been predicting a housing collapse.

In contrast to these signals, however, a whole host of indicators points toward a continuation in the ongoing expansion. Labor market developments, for example, are still buttressing the pace of economic activity. Although the duration of the average workweek dipped slightly in February (for the first time in seven months), the number of employees on nonagricultural payrolls continued to increase (for the seventh consecutive month), while the unemployment rate continued to fluctuate within a very narrow band.

Industrial production also continues to post gains, rising in January for the sixth consecutive month. As long as output expands, the labor market will continue to provide significant upside momentum to the economy. Thus, despite expectations in some quarters that another decline in the real GNP would be posted in early 1981, it is becoming increasingly apparent that the opposite will occur. Unless the economy weakens dramatically over the balance of this month, the real GNP will increase for the quarter. But it is unlikely, however, that the rate of expansion will equal the relatively strong four per cent rise posted in the fourth quarter's real GNP.

. . . But Clouds On the Horizon . . .

Getting back to the leading indicators, although trends in this index are not always the most accurate barometer of future economic developments, a closer look at some of the components which produced the 0.4 per cent, month-over-month decline in January does indicate strongly that economic activity will at least slow. Eight of the ten available components of the index contributed to the drop, including an upswing in the layoff rate and declines in new orders for consumer goods (adjusted for inflation), building permits, crude materials prices and stock prices. Two components of the index increased. They were the average workweek and the change in total liquid assets.

Interestingly, the downturn in the composite index provides both good and bad news. The bad news is that although the slight dip in the index does not definitively point toward a significant drop in output levels in the months ahead, neither does it suggest any strong surge in the pace of economic activity. The ongoing downturn in real consumer goods orders (three consecutive months) and new building permits (three of the most recent four months) indicates that sluggish consumer spending levels and building activity will continue to overhang the economy.

The good news, however, is the sharp fall which has occurred in some basic raw materials prices. Spot prices for a wide variety of commodities have been ratcheting downward since early November and, as of mid-February, the Bureau of Labor Statistics Tuesday spot price index stood almost 10 per cent below its early-November high. Although the break in commodity prices—both agricultural and industrial—may well presage a weakening of the economy, it could also portend a welcome abatement of inflationary pressures.

In addition to the evidence suggested in the consumer orders component of the leading indicators, the economic recovery in the area of consumer spending continues to sputter. Retail sales adjusted for inflation have exhibited an almost complete absence of any upside momentum and, in January, stood 3.6 per cent below their year-earlier levels.

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Automobile sales, although recently buoyed by an array of rebate programs, continue to be affected adversely by a combination of lofty sticker prices, high interest rates and ever-escalating gasoline prices. Finally, the restrained use of consumer installment credit during the fourth quarter (when installment credit outstanding rose only one per cent) suggests continued caution by consumers in boosting their purchases of such big-ticket items as automobiles and appliances. As a result, it is unlikely that household spending will sustain the growth momentum which developed in the fourth quarter. More likely, consumers will probably remain somewhat subdued, at least during the first half of 1981.

. . . May Presage Slower Growth

Despite the upturn in new housing starts in January, their numbers continue to be inflated by multi-family unit starts, especially those subsidized by the Federal government. Single-family starts, in contrast, dropped at an almost 100,000 unit annual rate, or about nine per cent, between September and January. Similarly, new housing permits issued, a harbinger of future new start trends, declined by more than 20 per cent since September. Looking ahead, while the introduction of more innovative mortgage financing packages has undoubtedly salvaged some new start plans as well as sales of existing homes, new starts will be dampened in

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 2/25/81	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	124.001	– 2.086	+ 2.543
Loans to Depository Inst.	1.713	+ .568	– .347
Float	5.161	+ 1.416	– 2.557
Total Reserve Bank Credit	140.589	– .692	+ 5.030
Treasury Deposits with Federal Reserve Banks	3.376	+ .544	– .306
Currency Outside Banks	119.826	– .019	+ 9.004
Member Bank Reserves:			
Required	39.202	– .558	– 3.797
Excess (Deficiency)	– .278	– .573	– .071
Total Reserves Held	38.924	– 1.131	– 3.868
Net Borrowed Reserves	1.831	+ 1.135	– .326
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	93.977	– .107	+13.730

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M-1A	364.9	– 23.3‡	– 2.0‡
M-1B	417.0	+ 1.4‡	+ 6.4‡
M-2 (January '81)	1,681.9	+ 6.3	+ 9.6
L (November '80)	2,346.5	+ 10.9	+ 9.8

† Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 3/6/81	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	14.30%	13.80%	12.85%
* Federal Agencies	15.14	14.93	14.83
* Project Notes—Taxfree (46% Taxable Equivalent)	11.48	13.89	N.A.
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	15.50	15.50	

‡Finance Company Paper—Prime	
5- 14 days	15.25%
15- 29 days	15.38
30- 59 days	15.13
60- 89 days	14.75
90-179 days	14.00
180-239 days	13.00
240-270 days	12.00

‡* Bankers' Acceptances	
Apr.	15.20%
May	15.05
Jun.	15.00
Jul.	14.95
Aug.	14.60
Sep.	14.55

‡Industrial Paper—Prime	
30- 89 days	15.38%
90-120 days	15.13

†Federal Funds Effective Rate 16.00%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'80	$ 2,732	$ 2,637	$ 2,496
Gross National Product (1972 Dollars)*	4th Q'80	$ 1,487	$ 1,472	$ 1,491
Percent Change, Annual Rate	4th Q'80	4.0%	2.4%	0.6%
Change in Consumer Prices (all urban consumers)*	Jan '81	8.4%	12.0%	16.8%
Change in Producer Prices*	Feb '81n	9.6%	10.8%	15.6%
Civilian Employment (Thousands of Persons) †	Feb '81n	97,927	97,696	97,817
Unemployment as % of Civilian Labor Force†	Feb '81n	7.3%	7.4%	6.2%
Personal Income*	Jan '81	$ 2,298	$ 2,277	$ 2,077
Leading Indicators Composite Index (1967=100) †	Jan '81	135.8	136.4	134.7
Industrial Production Index (1967=100) †	Jan '81	151.8	150.9	152.7
Net Change in Consumer Installment Credit†	Jan '81n	$ 0.87	$ 1.62	$ 1.37
U.S. Merchandise Trade Balance†	Jan '81n	–$ 4.37	–$ 2.19	–$ 3.72
Plant and Equipment Expenditures*	1st Q'81	$310.59(a)	$297.30(a)	$291.89
Private Housing Starts (Thousands of Units)*	Jan '81	1,585	1,532	1,389
New Construction Expenditures*	Jan '81n	$ 255.6	$ 242.4	$ 259.4
Total Business Inventories†	Dec '80	$ 457.0	$ 458.0	$ 426.8
Total Business Sales†	Dec '80	$ 332.2	$ 329.0	$ 302.1

* Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. a-Anticipated.

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the near term by such factors as high mortgage interest rates, volatile deposit inflows at the nation's thrift institutions and the ratcheting upward of new home prices. And although a plunge similar in magnitude to that which occurred in the second quarter of 1980 is unlikely—when new starts slumped to their third lowest level ever—some easing of starts is expected before the housing sector rebounds later on in 1981.

Even industrial production, which has increased for six consecutive months—but at a diminishing pace during the most recent four—may weaken further. The decline in January's new factory orders, together with an almost two per cent upturn in manufacturers' inventories, could adversely affect future output levels. However, these statistics are not sufficiently negative to indicate clearly that an outright contraction of industrial production lies ahead.

On balance, with some key sectors of the economy either weakening modestly or expected to weaken, it seems likely that growth will slow. But although slowing, the real economy should post another gain in the first quarter, buoyed by upturns in industrial production, total employment and personal incomes. The pluses still outweigh the minuses, and are likely to stay that way for the rest of the year. ■

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (2/18/81)	114,283	– 469	+22,166
New York City (2/18/81)	27,493	– 736	+ 7,608
Commercial Paper (2/18/81)	131,530	– 648	+13,365

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/18/81)	170,258	+ 154	+ 9,391
New York City (2/18/81)	49,857	+ 72	+ 1,618

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/18/81)	425,410	+ 2,206	+23,377
New York City (2/18/81)	100,059	+ 497	+ 8,661

Financial Markets

	Friday 3/6/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	15.03%	+ .13	– 1.10
180-Day Bills†	14.98	– .01	– 1.31
Longest Bills†	14.37	– .09	+ 1.39
Recent Issues:			
13⅝s 1/31/83	14.10	– .04	
14¼s 8/15/84	13.85	– .02	
13s 11/15/90	13.35	– .07	
12¾s 11/15/10	12.90	– .06	
Municipals:			
Bond Buyer–20 Bond Index* (3/5/81)	10.40%	+ .13	+ 1.46
Blue List Total ($ Million)	$ 801	–0–	+ $ 265
30-Day Visible Supply ($ Million)	$2,112	+ $125	+ $ 87
Total	$2,913	+ $125	+ $ 352
Corporates:			
Moody's Aa Composite (3/5/81)	14.19%	+ .12	+ .76
Money Mgr.–30-Day Supply ($ Million)	$3,552	– $136	+ $1,987
Stocks:			
Dow-Jones Averages:			
Industrials	964.62	– 9.96	+ 144.06
Transportation	403.73	+ 11.39	+ 130.89
Utilities	108.11	+ 1.68	+ 4.69
65 Stocks	372.19	+ 2.16	+ 72.02
Standard and Poor's 500 Stocks	129.85	– 1.42	+ 22.95
N.Y.S.E. Composite Index	74.46	– .67	+ 13.50
N.Y.S.E. Avg. Daily Vol. for Week (000's)	46,660	– 2,062	+ 2

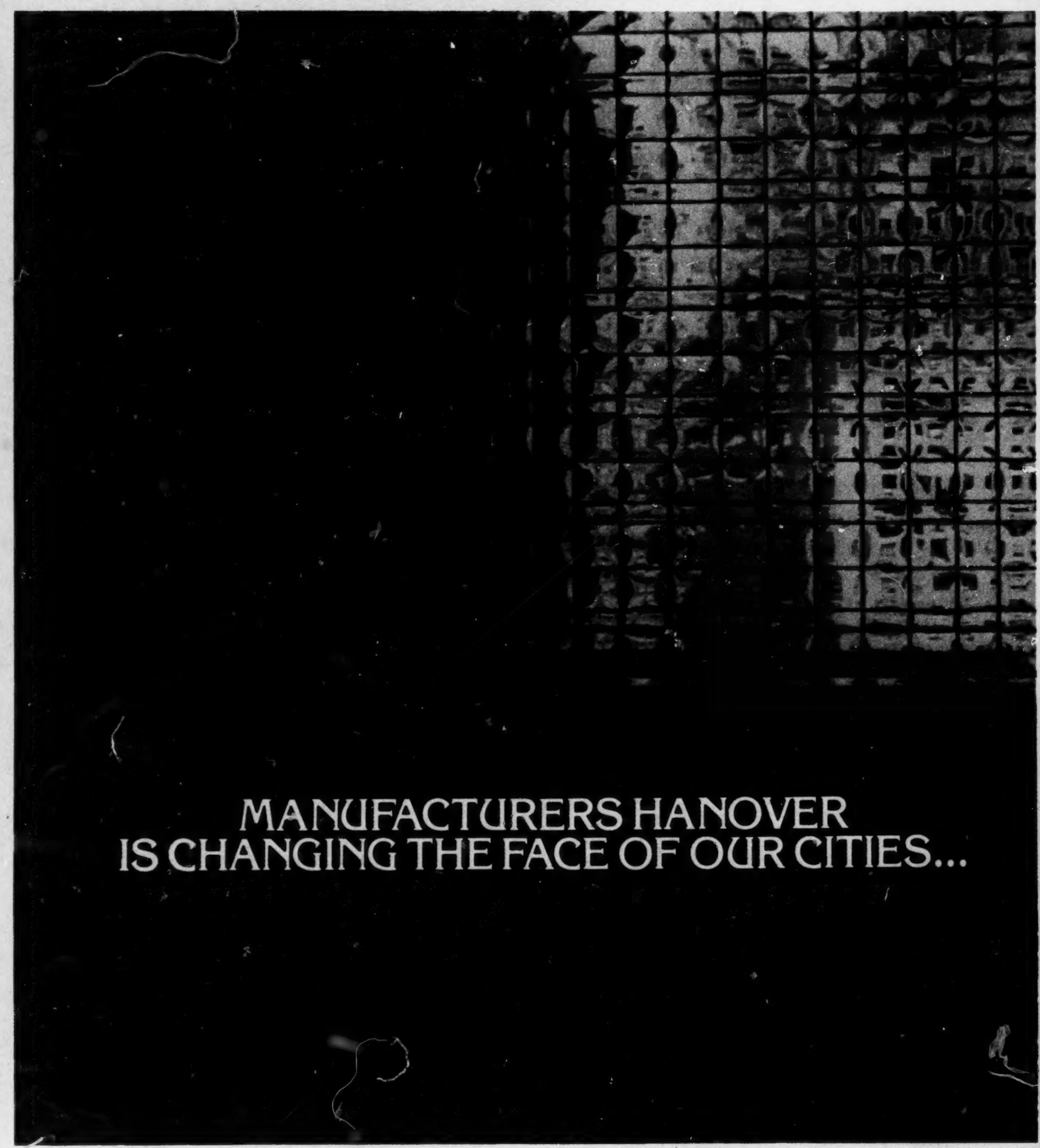
* 46% Taxable equivalent 19.26%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 3/6/81	Week Ago
Overnight	15.94%	15.25%
1 month	16.31	15.88
3 month	16.63	16.69
6 month	16.63	16.81
1 year	16.00	16.25
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	13.80%	14.00%
Long Term (7 to 15 yrs.)	13.70	13.80

FOREIGN EXCHANGE SPOT RATES **New York Opening (3/6/81)**	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02839	35.22
Canada	.8324	1.2013
Denmark	.1481	6.7500
France	.1979	5.0540
Germany	.4657	2.1475
Italy	.0009633	1038.00
Japan	.004785	209.00
Mexico	.04239	23.59
Netherlands	.4209	2.3760
Switzerland	.5084	1.9670
U.K.	2.1850	.4577



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The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, MARCH 16, 1981
VOLUME XVIII, NUMBER 11

Labor Demands . . .

The high rate of inflation, the steep recession and declining productivity have made the past year a particularly difficult one for many industries. Although the automobile sector was hit the hardest, many other areas were also adversely affected. As companies in these industries struggled to survive, they laid off hundreds of thousands of workers to reduce labor costs. In an effort to ease the financial burden facing manufacturers while trying to preserve jobs and prevent plant closings, a number of unions made significant—if not unprecedented—concessions. These involve pay cuts, in some cases, while in others, workers were required to produce more at the same pay, and elsewhere, wages were changed from fixed hourly salaries to incentive work—where compensation was directly related to output. Benefits have been reduced, too.

These concessions have not been confined to blue-collar union members alone. White-collar and other nonunion employees have seen their salaries and benefits trimmed. Also, not all agreements took place upon expiration of previous contracts; many were renegotiated in mid-contract. Ostensibly to help employers survive until business improves again, these concessions may have set a precedent that could make it more difficult for unions to win big settlements in the future. They may be the first step toward a weakening of the ever-increasing upward spiral in wage costs, signalling the start of a trend toward more flexible wages. It could be a sign that companies and unions may end their long, adversarial collective-bargaining relationship and turn toward a more cooperative one. Furthermore, since multi-year contracts along with their cost-of-living adjustments—which did not take changes in profitability or productivity into consideration—have been one of the more significant propellants behind the accelerating rate of inflation, this development may lead to a slowdown in the "core" rate of inflation which currently stands at close to 10 per cent.

. . . Sway With Economic Activity

Although the three wage and benefit concession agreements made by the United Auto Workers at Chrysler during the past 18 months—totalling $1.07 billion— have received the most attention lately, many other union workers have also agreed to reductions in pay and various benefits from their ailing employers. Most of them were in the automobile related industries such as tires, rubber and steel. Last week, for example, the United Auto Workers accepted a substantial cut in incentive pay rates at Ford's steel division. Without this concession on the part of labor, Ford would have been forced to lay off 3,760 steel division employees and phase out steelmaking for the commercial market. But companies in such other industries as food, printing, clothing, textiles, airlines and trucking have renegotiated their labor contracts.

Many concessions were granted by workers in the rubber and tire industry which was affected adversely by the slump in automobile sales and less driving by motorists. Here, union contracts had kept wages high for many years, despite declining productivity and sagging demand for new tires. After thousands of workers lost their jobs, the remaining employees settled for a number of adjustments.

Hourly wages were reduced at some plants. At others, cost-of-living adjustments were trimmed, deferred for several years or eliminated. Some employers reduced such benefits as holidays, vacations, medical plans and yearly bonuses. One company rewarded its incentive workers while regularly salaried personnel took pay cuts. At the same time, to utilize its maintenance workers more efficiently, they were required to perform tasks in trades other than those in which they specialized. For example, a plumber agreed to perform some electrical work when needed and vice versa with electricians. Furthermore, the plant was converted to a seven-day operation with no overtime for weekend work. Another tire company decided to combat low productivity by completely converting to piecework compensation instead of hourly rates, while the company promised to keep employment high. As a result, average production per worker increased by 10 per cent within a year while the plants operated at 100 per cent capacity.

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Preserving Jobs . . .
Since the steel industry had one of its worst years ever in 1980, and employment was the lowest since the Great Depression, workers agreed to trim labor costs significantly so that the companies might keep remaining plants in operation. Future wage increases were waived, bonuses forgone, and at one plant incentive workers agreed to a 10-step pay reduction.

These changes were not limited to durable goods industries. A planned closing of one food company's plant was averted when the union agreed to increases in chain speeds on assembly lines. In the publishing field, a 14 per cent wage reduction helped finance the workers' purchase of the magazine's printing firm. This purchase took place after 13 unions involved refused a proposed wage freeze which the company said was necessary to bring its labor costs into line with its competitors.

Just recently, some airline employees received cuts in pay which varied in magnitude between companies. However, a new profit sharing system was established which may enable employees to recoup, at least partially, these losses. If profits rise above a certain level, the possibility exists that these employees could end up with more money than they otherwise would have received.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 3/4/81	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	126.394	+ 2.393	+ 3.224
Loans to Depository Inst.	1.299	– .414	– 1.207
Float	2.751	– 2.521	– 1.810
Total Reserve Bank Credit	140.372	– .324	+ 5.509
Treasury Deposits with Federal Reserve Banks	2.682	– .694	+ .024
Currency Outside Banks	118.747	– 1.078	+ 7.973
Member Bank Reserves:			
Required	39.479	+ .277	– 2.988
Excess (Deficiency)	.662	+ .827	+ .131
Total Reserves Held	40.141	+ 1.104	– 2.857
Net Borrowed Reserves	.461	– 1.257	– 1.400
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	97.078	+ 3.101	+19.114
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates†			
M-1A	365.7	– 23.5‡	– 2.0‡
M-1B	419.7	+ 2.4‡	+ 7.3‡
M-2 (January '81)	1,681.7	+ 6.2	+ 9.6
L (December '80)	2,373.5	+ 12.1	+ 10.3

†Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 3/13/81	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	13.30%	12.66%	12.11%
* Federal Agencies	14.25	14.10	13.54
* Project Notes—Taxfree (46% Taxable Equivalent)	11.48	12.96	12.04
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	14.00	14.00	

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	13.00%	Apr.	14.05%
15- 59 days	14.00	May	13.90
60- 89 days	13.25	Jun.	13.70
90-119 days	13.50	Jul.	13.65
120-179 days	13.00	Aug.	13.55
180-239 days	12.75	Sep.	13.40
240-270 days	12.00		

‡Industrial Paper—Prime		†Federal Funds	
30- 89 days	14.00%		
90-120 days	14.00	Effective Rate	14.20%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'80	$ 2,732	$ 2,637	$ 2,496
Gross National Product (1972 Dollars)*	4th Q'80	$ 1,487	$ 1,472	$ 1,491
Percent Change, Annual Rate	4th Q'80	4.0%	2.4%	0.6%
Change in Consumer Prices (all urban consumers)*	Jan '81	8.4%	12.0%	16.8%
Change in Producer Prices*	Feb '81	9.6%	10.8%	15.6%
Civilian Employment (Thousands of Persons)†	Feb '81	97,927	97,696	97,817
Unemployment as % of Civilian Labor Force†	Feb '81	7.3%	7.4%	6.2%
Personal Income*	Jan '81	$ 2,298	$ 2,277	$ 2,077
Leading Indicators Composite Index (1967=100)†	Jan '81	135.8	136.4	134.7
Industrial Production Index (1967=100)†	Jan '81	151.8	150.9	152.7
Net Change in Consumer Installment Credit†	Jan '81	$ 0.87	$ 1.62	$ 2.73
U.S. Merchandise Trade Balance†	Jan '81	–$ 4.37	–$ 2.19	–$ 3.72
Plant and Equipment Expenditures*	1st Q'81	$310.59(a)	$297.30(a)	$291.89
Private Housing Starts (Thousands of Units)*	Jan '81	1,585	1,532	1,389
New Construction Expenditures*	Jan '81	$ 255.6	$ 242.4	$ 259.6
Total Business Inventories†	Jan '81n	$ 461.8	$ 456.8	$ 431.8
Total Business Sales†	Jan '81n	$ 338.7	$ 332.5	$ 312.7

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

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. . . Is The Main Concern

Undoubtedly, many more companies will seek wage concessions from labor in the near future. Both Ford and General Motors have publicly stated that the recent UAW concessions at Chrysler have set the stage for them to request similar "give-backs," since a two- or three-tier wage scale in the industry is unacceptable to Ford and GM as it puts them at a competitive disadvantage.

More and more labor and management negotiating teams are thinking of changing the way they have conducted collective bargaining. Some labor leaders admit that the present system needs improvement, since settlements are based on what the economy is going to be like in the next three years while no one knows what will happen in the next three months. More cooperation between labor and management is needed in order to solve such mutual problems as declining profits, productivity, profit sharing, work rules, length of contracts among others. The UAW union is already represented on the board of directors at Chrysler.

The above-mentioned developments may very well indicate an evolution in labor-management relations toward that of "industrial democracy" practiced in many European countries and Japan, where unions

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (2/25/81)	114,208	– 84	+21,079
New York City (2/25/81)	26,680	– 813	+ 6,608
Commercial Paper (2/25/81)	131,351	– 179	+13,146

Bank Loans

(Millions of Dollars)

Weekly Reporting Large Commercial Banks	Commercial and Industrial Loans Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/25/81)	169,482	– 776	+ 9,505
New York City (2/25/81)	49,377	– 480	+ 2,072

	Total Loans Gross Adjusted Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/25/81)	423,216	– 2,188	+22,437
New York City (2/25/81)	98,852	– 1,207	+ 8,810

Financial Markets

	Friday 3/13/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	13.83%	– 1.20	– 2.57
180-Day Bills†	13.44	– 1.54	– 3.12
Longest Bills†	13.34	– 1.03	– 2.51
Recent Issues:			
$13^{5}/_{8}$s 1/31/83	13.63	– .47	
$14^{1}/_{4}$s 8/15/84	13.20	– .65	
13s 11/15/90	12.00	– 1.35	
$12^{3}/_{4}$s 11/15/10	11.50	– 1.40	
Municipals:			
Bond Buyer–20 Bond Index* (3/12/81)	10.34%	– .06	+ 1.26
Blue List Total ($ Million)	$ 770	– $ 31	+ $ 314
30-Day Visible Supply ($ Million)	$2,022	– $ 90	+ $ 624
Total	$2,792	– $121	+ $ 938
Corporates:			
Moody's Aa Composite (3/12/81)	13.91%	– .28	+ .41
Money Mgr.–30-Day Supply ($ Million)	$4,135	+ $583	+ $2,460
Stocks:			
Dow-Jones Averages:			
Industrials	985.77	+ 21.15	+ 174.08
Transportation	420.40	+ 16.67	+ 158.62
Utilities	108.91	+ .80	+ 6.10
65 Stocks	381.90	+ 9.71	+ 87.46
Standard and Poor's 500 Stocks	133.11	+ 3.26	+ 27.68
N.Y.S.E. Composite Index	76.32	+ 1.86	+ 16.25
N.Y.S.E. Avg. Daily Vol. for Week (000's)	54,798	+ 8,138	+ 16,482

* 46% Taxable equivalent 19.15%.

† Bond equivalent.

International Rates

	Friday 3/13/81	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	14.75%	15.94%
1 month	15.13	16.31
3 month	15.13	16.63
6 month	15.25	16.63
1 year	14.88	16.00
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	13.70%	13.80%
Long Term (7 to 15 yrs.)	13.60	13.70

FOREIGN EXCHANGE SPOT RATES New York Opening (3/13/81)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02887	34.64
Canada	.8365	1.1955
Denmark	.1504	6.6500
France	.2007	4.9825
Germany	.4733	2.1130
Italy	.0009756	1025.00
Japan	.004809	207.95
Mexico	.04227	23.66
Netherlands	.4274	2.3395
Switzerland	.5165	1.9360
U.K.	2.2260	.4492

and management have been working together for years. In Germany, for example, under the highly successful program of co-determination, unions have equal representation on supervisory boards and one-member representation on management boards. Since union delegates have become members of the management team, they have jointly solved not only wage demands, but also the problems of technology and disputes that affect workers and the work place today and in the years ahead.

U.K. Budget Remains Austere

The British government's 1981-82 budget, which was presented to Parliament on March 10, failed to arouse much enthusiasm from the government side of the House of Commons, or from the opposition, for that matter. The government continues to make the fight against inflation its main goal, rather than unemployment, which is what the Labor Party would have liked. But even the parliamentary supporters of the government, not to mention British industry, would have preferred a sharper cut in the minimum lending rate (MLR), than the two per cent proposed in the budget. A cut of three or four per cent had been widely discussed in recent weeks and, indeed, had already been discounted in the financial and foreign exchange markets. British exporters wanted a deeper cut in the MLR to depress the value of the pound to the point where British exports would benefit. The two-point drop in the MLR suggests a more gradual decline in the pound's value this year.

A further source of disappointment in Britain was that overall tax revenues were increased in spite of the fact that a cut in tax rates has been a major tenet of "Thatcherism." Banks were particularly singled out, as a one-time tax on bank profits was imposed. As in the United States, British Social Security deductions were raised. This, along with disappointment over the failure of the government to raise personal deductions, as had been widely expected, will offer no relief to the British taxpayer.

Much of the shape of the budget stems from the inability of the government to control the public sector borrowing requirement (PSBR), that is, the amount over and above revenues which the government must borrow to support central and local government needs as well as the needs of government-owned enterprises. The PSBR for 1980-81 was forecast in early 1980 to be about $19 billion, or close to four per cent of GNP. It is now estimated that the final tally will be close to $30 billion or six per cent of GNP. For 1982 the target is for just over $23 billion (or four per cent of GNP), but this will be attainable only if revenues, hence taxes, are increased.

The money supply has also resisted control, as it has grown far in excess of the Bank of England's target. M3, which the British have used as the principal indicator of money supply growth, rose by about 20 per cent in 1980. The target range was seven to 11 per cent. Between now and April 1982 the target has been set at six to 10 per cent. But this again implies a continuation of tight credit and little, if any, growth.

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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, MARCH 23, 1981
VOLUME XVIII, NUMBER 12

Every Silver Lining . . .

One of the major factors prompting this year's downturn in short-term interest rates has been a slowing of the growth of the money supply. During the quarter ending March 4, M-1A contracted at a 23.5 per cent seasonally adjusted annual rate while M-1B expanded at a modest 2.4 per cent annual rate, both well below the Federal Reserve's 1981 growth targets. These range from minus 4.5 to minus 2.0 per cent for M-1A and 6.0 to 8.5 per cent for M-1B. In terms of levels, M-1A currently stands $15.2 billion below its lower target boundary while M-1B stands approximately $1.2 billion short of its lower target.

What is more, the Federal Reserve recently announced that as much as 80 per cent of the growth of M-1B since the beginning of the year has been the result of the transfer of deposits from non-interest bearing checking accounts to interest-bearing, or NOW accounts. Indeed, in the absence of the nationwide introduction of NOW accounts, M-1B growth would have come to a virtual halt this year.

. . . Has A Cloud

This slowing in the growth of the transactions demand for money (as measured by M-1B) has, however, coincided with an unparalleled upsurge in the size of money market mutual funds. Since the beginning of the year, the assets of these funds, which are a component of the broader aggregate M-2, have been growing by $2.7 billion per week, reflecting the strong competitive position of the funds in a declining interest rate environment. The money funds pay several times the interest rate that banks and thrifts can pay on NOW accounts, although they both offer a relatively high degree of liquidity. As a result, banks and thrifts have been losing deposits to these funds. Not surprisingly, there have been calls for curbing these funds, in order to equalize the competition for deposits.

It, therefore, becomes interesting to speculate as to what the effects on the narrowly-defined monetary aggregates might be if restrictions were to be placed on the money funds. These could include the imposition of reserve requirements, which would tend to narrow their yield advantage relative to NOW accounts, or the removal of checking account privileges. Since many people use these funds as checking accounts, it seems reasonable to assume that lower yields and/or no checking privileges might cause some funds to be shifted back into interest-bearing checking accounts (M-1B). A shift of only 25 per cent of the money funds' assets into M-1B would push its year-to-date, annual growth rate to eight per cent, while a shift of one-third of such assets (about $35 billion) would push M-1B growth well above its upper target boundary. When considering that the money funds have grown by $30 billion since the beginning of the year, such shifts are not inconceivable. In this event, the Federal Reserve will have to decide whether a tightening of monetary policy would be called for — which, of course, would mean higher interest rates.

Petroleum Price Rises Slow . . .

Although the recently implemented deregulation of crude oil prices boosted the cost of most refined products, oil producers are finding substantial consumer resistance. In fact, as a result of the growing gasoline glut in the marketplace, some companies have already backed down by reducing wholesale quotes.

Consumers here and abroad have been cutting petroleum use significantly. In 1980, U.S. consumption of refined petroleum products declined by 2.6 per cent while total free world demand for petroleum products dropped by 5.4 per cent. So far this year, U.S. demand has declined even faster than in 1980. During the four weeks ending March 6, 1981, consumers and industry used petroleum at a rate of 16.5 million barrels per day, 10.7 per cent less than during the comparable period a year ago. Motorists used seven per cent less gasoline, while consumption of distillate fuel oil—which is primarily home heating oil and diesel fuel—was 10.7 per cent below the comparable period a year ago. This occurred while the weather was colder than last year (measured by population weighted degree days which are used by the Department of Energy as an indication of demand for residential heating fuel). Consequently, stocks of refined products and crude oil have soared, with gasoline supplies reaching a record level of 284.3 million barrels this month.

Manufacturers Hanover Trust Company
350 Park Avenue, New York, NY 10022

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. . . As World Supplies Grow

In light of declining world oil consumption, swelling inventories and declining spot prices on the Rotterdam and New York exchanges, the OPEC nations last week called an emergency meeting. Topics discussed were prices and production levels, especially in view of possible significant increases in output by Iran and Iraq, once their war ends. If Iran and Iraq resume substantial exports, prospects for a world oil glut will increase. Both of these countries will most likely want to produce as much oil as possible to restore their economies and to repair war damaged structures.

Their combined potential output is high. Currently, they are exporting slightly more than one million barrels per day. Prior to the Shah's overthrow, Iran was the free world's second largest crude oil exporter after Saudi Arabia at 5.2 million barrels per day, and Iraq was third, with exports of 2.6 million barrels per day. Before the onset of the war between the two countries, Iraq had moved into second place with production of 3.4 million barrels per day. Iran, however, has the capacity to produce seven million barrels per day according to installed capacity estimates. Since Iraq could supply up to four million barrels per day, world supplies could potentially swell by close to 10 million barrels per day. The current glut of oil here and abroad and the prospect of the supply-demand gap growing even wider is

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 3/11/81	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	125.486	– .908	+ 2.977
Loans to Depository Inst.	.768	– .531	– 2.670
Float	2.929	+ .145	– 1.575
Total Reserve Bank Credit	139.109	– 1.295	+ 4.140
Treasury Deposits with Federal Reserve Banks	3.022	+ .340	+ .082
Currency Outside Banks	118.595	– .147	+ 7.576
Member Bank Reserves:			
Required	38.868	– .611	– 3.463
Excess (Deficiency)	.160	– .537	+ .082
Total Reserves Held	39.028	– 1.148	– 3.381
Net Borrowed Reserves	.423	– .003	– 2.633
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	97.729	+ .651	+20.972

		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates†			
M-1A	365.7	– 22.5‡	– 2.1‡
M-1B	421.8	+ 4.6‡	+ 7.0‡
M-2 (February '81)	1,692.2	+ 5.2	+ 9.3
L (December '80)	2,373.5	+ 12.1	+ 10.3

† Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 3/20/81	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	12.39%	11.77%	11.48%
* Federal Agencies	12.79	12.50	12.67
* Project Notes—Taxfree (46% Taxable Equivalent)	11.48	11.67	11.85
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	13.20	13.15	

‡Finance Company Paper—Prime	
5- 14 days	12.00%
15- 29 days	12.38
30-179 days	12.25
180-239 days	12.50
240-270 days	12.00

‡* Bankers' Acceptances	
Apr.	12.90%
May	12.80
Jun.	12.80
Jul.	12.80
Aug.	12.65
Sep.	12.44

‡Industrial Paper—Prime	
30- 89 days	12.65%
90-120 days	12.50

†Federal Funds Effective Rate 13.20%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'80	$ 2,731	$ 2,637	$ 2,496
Gross National Product (1972 Dollars)*	4th Q'80	$ 1,486	$ 1,472	$ 1,491
Percent Change, Annual Rate	4th Q'80	3.8%	2.4%	0.6%
Change in Consumer Prices (all urban consumers)*	Jan '81	8.4%	12.0%	16.8%
Change in Producer Prices*	Feb '81	9.6%	10.8%	15.6%
Civilian Employment (Thousands of Persons)†	Feb '81	97,927	97,696	97,817
Unemployment as % of Civilian Labor Force†	Feb '81	7.3%	7.4%	6.2%
Personal Income*	Feb '81n	$ 2,314	$ 2,299	$ 2,086
Leading Indicators Composite Index (1967=100)†	Jan '81	135.8	136.4	134.7
Industrial Production Index (1967=100)†	Feb '81n	150.8	151.5	152.6
Net Change in Consumer Installment Credit†	Jan '81	$ 0.87	$ 1.62	$ 2.73
U.S. Merchandise Trade Balance†	Jan '81	–$ 4.37	–$ 2.19	–$ 3.72
Plant and Equipment Expenditures*	2nd Q'81n	$317.29(a)	$310.59(a)	$294.36
Private Housing Starts (Thousands of Units)*	Feb '81n	1,218	1,615	1,273
New Construction Expenditures*	Jan '81	$ 255.6	$ 242.4	$ 259.6
Total Business Inventories†	Jan '81	$ 461.8	$ 456.8	$ 431.4
Total Business Sales†	Jan '81	$ 338.7	$ 332.5	$ 312.5

* Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. a-Anticipated.

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expected to put downward pressure on prices, arresting the recent series of increases and result in modest declines in gasoline and other petroleum product prices.

Housing Takes A Dive

Among the gloomy statistics released last week was the sharp drop in housing construction. High mortgage rates have finally begun to take their toll on the number of new units started. New-home starts plummeted by 25 per cent in February to a seasonally adjusted 1.2 million unit annual rate—the lowest since last July.

A weakening in residential activity has long been expected. Mortgage rates began their upward climb in early fall and the commitment rate on conventional mortgages for home purchase has now been above 15 per cent since late last year. The number of building permits issued—a good harbinger of future housing activity—has been declining, on balance, since September. Sales of single family homes have been declining for months and the cost of owning a home rose by 20 per cent in 1980 compared with 1979.

Although the housing numbers had appeared fairly strong through January, a closer look reveals that recent gains have resulted solely from multifamily construction, some of which was supported by

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (3/4/81)	111,804	– 2,404	+17,705
New York City (3/4/81)	26,715	+ 35	+ 6,164
Commercial Paper (3/4/81)	131,927	+ 576	+13,562

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/4/81)	169,985	+ 503	+ 9,186
New York City (3/4/81)	49,549	+ 172	+ 2,247

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/4/81)	425,452	+ 2,236	+20,903
New York City (3/4/81)	100,313	+ 1,461	+ 8,231

Financial Markets

	Friday 3/20/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	12.40%	– 1.43	– 2.53
180-Day Bills†	11.70	– 1.74	– 4.15
Longest Bills†	11.50	– 1.84	– 3.78
Recent Issues:			
13⅝s 1/31/83	12.90	– .73	
14¼s 8/15/84	12.84	– .36	
13s 11/15/90	12.43	+ .43	
12¾s 11/15/10	12.00	+ .50	
Municipals:			
Bond Buyer—20 Bond Index* (3/19/81)	9.81%	– .53	+ .61
Blue List Total ($ Million)	$ 721	– $ 49	+ $ 237
30-Day Visible Supply ($ Million)	$2,252	+ $230	+ $1,237
Total	$2,973	+ $181	+ $1,474
Corporates:			
Moody's Aa Composite (3/19/81)	13.64%	– .27	+ .24
Money Mgr.—30-Day Supply ($ Million)	$3,800	– $335	+ $2,160
Stocks:			
Dow-Jones Averages:			
Industrials	992.80	+ 7.03	+ 207.65
Transportation	418.59	– 1.81	+ 168.49
Utilities	109.13	+ .22	+ 8.25
65 Stocks	382.89	+ .99	+ 98.43
Standard and Poor's 500 Stocks	134.08	+ .97	+ 31.77
N.Y.S.E. Composite Index	72.13	+ .81	+ 18.89
N.Y.S.E. Avg. Daily Vol. for Week (000's)	59,262	+ 4,464	+ 22,006

* 46% Taxable equivalent 18.17%.

† Bond equivalent.

International Rates

	Friday 3/20/81	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	13.25%	14.75%
1 month	13.50	15.13
3 month	14.00	15.13
6 month	14.13	15.25
1 year	14.13	14.88
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	13.30%	13.70%
Long Term (7 to 15 yrs.)	13.20	13.60

FOREIGN EXCHANGE SPOT RATES

New York Opening (3/20/81)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02946	33.94
Canada	.8439	1.1850
Denmark	[illegible]	6.5175
France	.2048	4.8840
Germany	.4832	2.0695
Italy	.0009891	1011.00
Japan	.004784	209.05
Mexico	.04223	23.68
Netherlands	.4363	2.2920
Switzerland	.5299	1.8870
U.K.	2.2660	.4492

government housing programs. Since bottoming out last May, multifamily unit starts more than doubled to a seasonally adjusted 623,000 unit annual rate in January, the highest since September, 1979. In February, starts sank by 30 per cent, paced by a 35 per cent freefall in the number of starts in buildings with five or more units. It should be noted that most of the government funds that had been supporting this sector ran out in January.

The combination of high mortgage interest rates and home prices, along with reduced Federal subsidies should assure a subdued housing outlook for the next several months. Related industries such as lumber, wood products, building materials, metals such as copper, home furnishings and others will also be affected adversely. One area that has survived the housing slump, however, has been the home remodeling sector. While housing starts dropped by 26 per cent in 1980, investment in additions and alterations to residential structures expanded by 7.3 per cent, after adjustment for inflation. Spending has been stimulated by several factors. Among the more important was energy conservation efforts. These have caused consumers to insulate their homes or to make other adjustments to make them more energy efficient. The inability of some homeowners to sell their present dwellings has prompted many to renovate or expand their old homes, instead. Finally, since the amount of finance needed for home improvement is much less than that required when purchasing a home, high interest rates have had less of an adverse impact on this market. H

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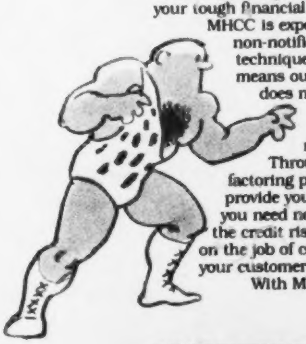


The Manufacturers Hanover
Financial Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, MARCH 30, 1981
VOLUME XVIII, NUMBER 13

Economic Boom or Gloom?

Two extreme points of view have surfaced among those whose job it is to keep their fingers on the pulse of the economy. Some analysts see a resilient economy. Included in this group is the Commerce Department, whose recently released "flash" report showed the real GNP growing at a five per cent seasonally adjusted annual rate in the first quarter compared with the previous quarter. On the other hand, some economists have expressed the opinion that the economy has already slipped into recession.

On close examination, however, it would appear that the available statistics released through the middle of March do not support either view, since the economic indicators for February and March are mixed. Although business activity during the first quarter probably did not keep pace with the final quarter of 1980, neither did economic activity contract. The "flash" report was based primarily on January data, when the economy was somewhat stronger than in subsequent months. And while some statistics may be signalling a slowdown of the economy, others show improvement.

One of the more positive indicators is consumer spending. This sector represents about two-thirds of the overall GNP, and has remained fairly strong. In February, personal consumption expenditures rose by 1.3 per cent to a seasonally adjusted $1,818.2 billion annual rate, following a gain of 1.4 per cent in January. Durable goods consumption increased by a hefty 2.7 per cent paced by a 4.8 per cent rise in motor vehicle purchases. Spending on nondurable goods rose by 1.7 per cent, up from 1.5 per cent in January.

The automobile industry, which has been depressed for well over a year, is clearly showing signs of life. Generous rebate programs offered by domestic manufacturers, aimed at reducing persistently high inventories and boosting production, have stimulated sales significantly. During the last ten-day selling period in February, total sales jumped to a seasonally adjusted 10.3 million unit annual rate—the highest level since September, 1979. Combined with the first 20 days of March, car sales during the last 30-day selling period averaged 9.4 million units at an annual rate—20 per cent more than during the comparable period a year ago. In response, the automakers have begun to step up production of passenger cars and trucks. This, in turn, has stimulated demand for steel with production now running about three per cent above year-earlier levels.

That Is The Question

What is more, the BLS index of sensitive commodity prices, which responds quickly to changes in supply and demand and thus may be used as an indicator of future production levels, turned up in February. Importantly, prices of raw industrial materials rose 3.2 per cent during the five weeks ending March 17, 1981, after a three-month decline. In particular, production of paperboard, after posting year over year declines for most of the past 12 months, has been running well above year-ago levels.

To be sure, some negative indicators have also been released—especially within the past month. Specifically, new orders for manufacturers' durable goods rose by a very modest 0.4 per cent in February, with almost all of the increase accounted for by a sharp 35 per cent jump in orders for defense-related capital goods. Orders for nondefense capital goods plummeted by 14.5 per cent—the largest one-month drop in almost a decade. Industrial production fell by 0.5 per cent in February, after rising only 0.4 per cent the previous month. With the exceptions of mining and defense and space equipment, all major industries and market segments posted declines. The greatest cuts in production took place in the housing-related areas, such as durable goods for home and construction supplies—not surprising, in view of February's plunge in new home starts (Financial Digest—March 23, 1981).

Only Gloom For Federal Finances . . .

On balance, the array of recent indicators does not necessarily point to either recession or vigorous expansion. It probably signals a still growing economy, albeit at a slower rate than during the last quarter of 1980. Looking ahead, however, any downturn in activity which does occur will be moderated by the stimulative impact of an ever-

Manufacturers Hanover Trust Company
350 Park Avenue, New York, NY 10022

widening Federal budget deficit. In February, expenditures exceeded revenues by $15.6 billion—$6.3 billion more than the February, 1980 deficit. This brought the fiscal year to date red ink total to more than $56 billion, almost $18 billion higher than the comparable fiscal 1980 period. If these trends persist, the budget deficit for the fiscal year as a whole will exceed $85 billion, or more than $30 billion higher than current Administration estimates—and a new record.

Unfortunately, these trends may not only persist, they may worsen. Despite the added emphasis being placed on national defense, the largest proportion of the fiscal year to date spending increases—about 45 per cent of the $40 billion year over year gain—was accounted for by stepped-up income security outlays, of which inflation-indexed Social Security payments are a major component. By contrast, increased defense spending, while averaging about $1.8 billion per month higher than year earlier levels, accounted for only slightly more than one-fifth of the expenditure gain.

In the absence of substantial nondefense spending cuts, the current and projected rise in defense outlays will only widen the budget deficit even further. Increasingly, it becomes apparent that the nation can not have guns, butter — and price stability.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 3/18/81	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	127.444	+ 1.958	+ 3.580
Loans to Depository Inst.	.774	+ .006	− 2.226
Float	3.143	+ .140	− 2.456
Total Reserve Bank Credit	141.438	+ 2.254	+ 4.275
Treasury Deposits with Federal Reserve Banks	3.131	+ .109	+ .617
Currency Outside Banks	120.008	+ 1.395	+ 7.564
Member Bank Reserves:			
Required	39.491	+ .623	− 3.774
Excess (Deficiency)	.224	+ .005	+ .044
Total Reserves Held	39.715	+ .628	− 3.730
Net Borrowed Reserves	.357	− .007	− 2.307
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	97.949	+ .220	+21.794

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M-1A	363.7	− 22.8‡	+ 2.1‡
M-1B	420.6	+ 5.5‡	+ 7.3‡
M-2 (February '81)	1,692.1	+ 5.1	+ 9.3
L (December '80)	2,373.5	+ 2.1	+ 10.3

† Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four week moving average.

New York Money Market

Offering Rates 3/27/81	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	12.95%	12.66%	12.12%
* Federal Agencies	13.53	13.38	13.25
* Project Notes—Taxfree (46% Taxable Equivalent)	11.94	12.22	12.69
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	13.50	13.50	

‡ Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 29 days	14.00%	Apr.	14.00%
30- 59 days	13.00	May	13.80
60-179 days	12.50	Jun.	13.60
180-239 days	12.38	Jul.	13.55
240-270 days	12.00	Aug.	13.30
		Sep.	13.00

‡ Industrial Paper—Prime			
30- 89 days	13.88%	† Federal Funds	
90-120 days	13.75	Effective Rate	15.00%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'80	$ 2,731	$ 2,637	$ 2,496
Gross National Product (1972 Dollars)*	4th Q'80	$ 1,486	$ 1,472	$ 1,491
Percent Change, Annual Rate	4th Q'80	3.8%	2.4%	0.6%
Change in Consumer Prices (all urban consumers)*	Feb '81n	12.0%	8.4%	15.6%
Change in Producer Prices*	Feb '81	9.6%	10.8%	15.6%
Civilian Employment (Thousands of Persons) †	Feb '81	97,927	97,696	97,817
Unemployment as % of Civilian Labor Force †	Feb '81	7.3%	7.4%	6.2%
Personal Income*	Feb '81	$ 2,314	$ 2,299	$ 2,086
Leading Indicators Composite Index (1967=100) †	Feb '81n	136.3	136.9	134.1
Industrial Production Index (1967=100) †	Feb '81	150.8	151.5	152.6
Net Change in Consumer Installment Credit †	Jan '81	$ 0.87	$ 1.62	$ 2.73
U.S. Merchandise Trade Balance †	Jan '81	−$ 4.37	−$ 2.19	−$ 3.72
Plant and Equipment Expenditures*	2nd Q'81	$317.29(a)	$310.59(a)	$294.36
Private Housing Starts (Thousands of Units)*	Feb '81	1,218	1,615	1,273
New Construction Expenditures*	Jan '81	$ 255.6	$ 242.4	$ 259.6
Total Business Inventories †	Jan '81	$ 461.8	$ 456.8	$ 431.4
Total Business Sales †	Jan '81	$ 338.7	$ 332.5	$ 312.5

* Seasonally adjusted annual rate. † Seasonally adjusted. n Newly reported figure. a Anticipated.

. . . And Consumer Prices

As if to underscore this point, the rate of inflation picked up again last month, moving back into double-digit territory. The consumer price index rose by one per cent in February, up from the 0.7 per cent month over month rise posted in January. About 60 per cent of the advance was the result of rising energy prices—gasoline, motor oil, natural gas and electricity—prompted largely by January's decontrol of crude oil prices. The transportation component increased by 2.4 per cent, almost all of which occurred because of the 6.6 per cent rise in gasoline prices—the biggest jump in a year. These gains more than offset the beneficial effects of sagging home prices, the auto rebates and falling meat prices.

Despite the 1.2 per cent decline in housing prices, however, the housing index increased in February by 0.6 per cent. Here again, rising energy prices (particularly home heating oil) were the major culprits, along with a 1.4 per cent gain in mortgage interest rates. Grocery store food prices remained unchanged in February. Meats, poultry, fish and eggs together declined by 2.1 per cent, reflecting the large supplies of beef, pork and poultry on the market. However, the sharp decline in meat prices was offset by rising fruit and vegetable prices, where supplies were substantially reduced by the January freeze.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (3/11/81)	112,208	+ 404	+18,240
New York City (3/11/81)	26,952	+ 237	+ 6,577
Commercial Paper (3/11/81)	132,476	+ 474	+13,927

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/11/81)	168,936	− 1,047	+ 7,302
New York City (3/11/81)	49,419	− 130	+ 1,867

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/11/81)	421,060	− 4,392	+18,233
New York City (3/11/81)	98,122	− 2,191	+ 7,742

Financial Markets

	Friday 3/27/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	13.07%	+ .67	− 3.72
180-Day Bills†	12.67	+ .97	− 4.49
Longest Bills	12.17	+ .67	− 4.38
Recent Issues:			
$13\frac{5}{8}$s 1/31/83	13.63	+ .73	
$14\frac{1}{4}$s 8/15/84	13.55	+ .71	
13s 11/15/90	13.23	+ .80	
$12\frac{3}{4}$s 11/15/10	13.95	+ 1.95	
Municipals:			
Bond Buyer–20 Bond Index* (3/26/81)	10.09%	+ .28	+ .65
Blue List Total ($ Million)	$ 890	+ $169	+ $ 449
30-Day Visible Supply ($ Million)	$2,715	+ $463	+ $1,821
Total	$3,605	+ $632	+ $2,270
Corporates:			
Moody's Aa Composite (3/26/81)	13.90%	+ .26	+ .13
Money Mgr.–30-Day Supply ($ Million)	$4,138	+ $338	+ $2,578
Stocks:			
Dow-Jones Averages:			
Industrials	994.78	+ 1.98	+ 217.13
Transportation	430.29	+ 11.70	+ 188.08
Utilities	107.53	- 1.60	+ 9.80
65 Stocks	386.02	+ 3.13	+ 107.20
Standard and Poor's 500 Stocks	134.65	+ .57	+ 33.97
N.Y.S.E. Composite Index	77.59	+ 5.46	+ 20.77
N.Y.S.E. Avg. Daily Vol. for Week (000's)	57,668	- 1,594	+ 11,510

* 46% Taxable equivalent 18.69%.

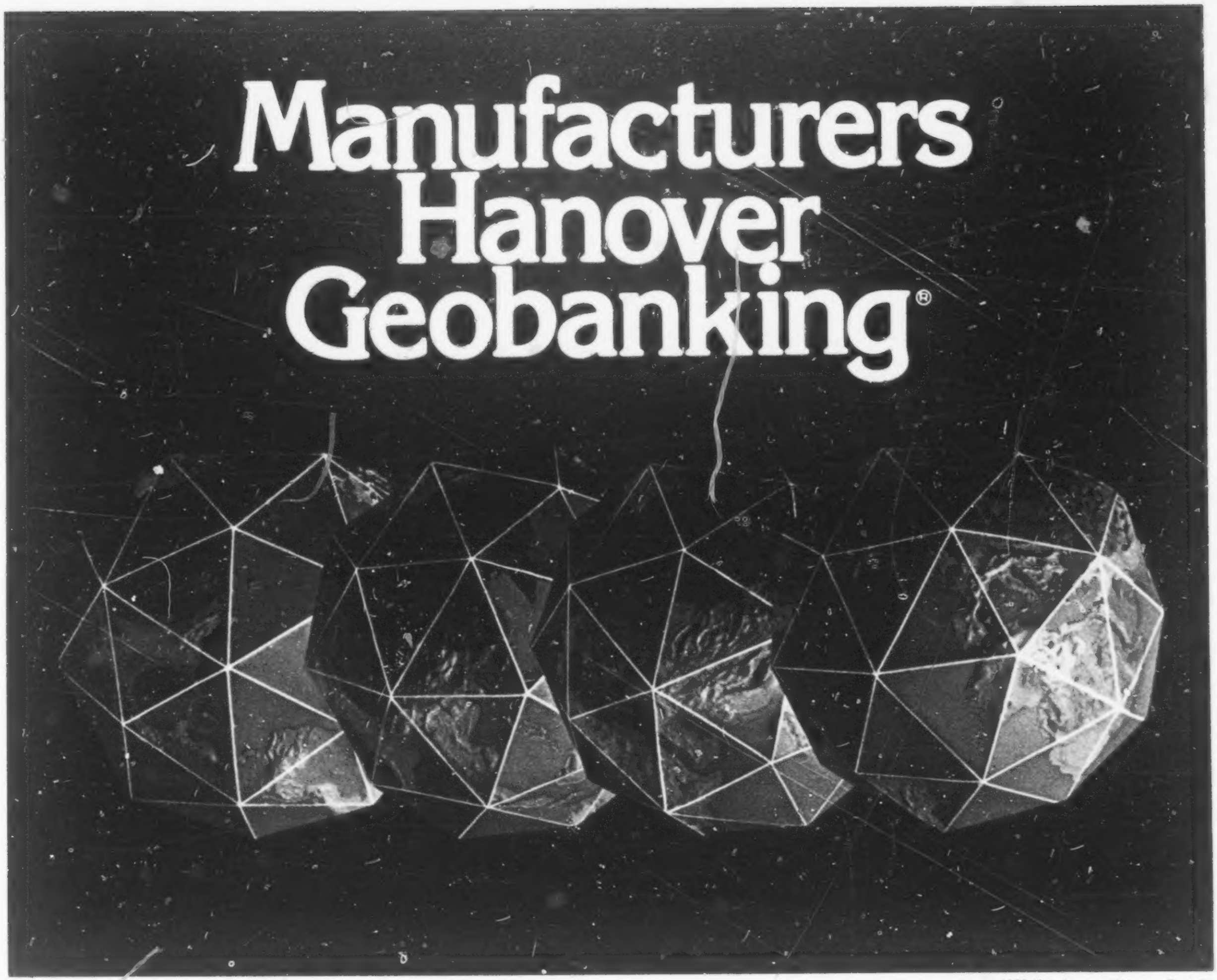
† Bond equivalent.

International Rates

	Friday 3/27/81	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	15.13%	13.25%
1 month	15.00	13.50
3 month	15.13	14.00
6 month	15.25	14.13
1 year	15.06	14.13
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	14.30%	13.30%
Long Term (7 to 15 yrs.)	14.10	13.20

FOREIGN EXCHANGE SPOT RATES

New York Opening (3/27/81)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02875	34.78
Canada	.8422	1.1874
Denmark	.1497	6.6800
France	.1995	5.0125
Germany	.4698	2.1285
Italy	.0009416	1062.00
Japan	.004721	211.80
Mexico	.04211	23.75
Netherlands	.4246	2.3550
Switzerland	.5160	1.9380
U.K.	2.2345	.4472



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The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, APRIL 6, 1981

VOLUME XVIII, NUMBER 14

Slack In The Housing Market . . .

One of the areas most seriously affected by current economic and financial market conditions is the housing sector. With mortgage interest rates well above 15 per cent in most areas of the country, new home prices at extremely lofty levels and Federal government housing assistance being scaled back by the Reagan Administration, it is hardly surprising that new housing starts nose dived 25 per cent in February compared with month-earlier levels. What is more, new building permits issued—a harbinger of future new start trends—dropped almost seven per cent in February, month-over-month, to a seasonally adjusted 1.1 million-unit annual rate. This key barometer of future developments has now declined during four of the past five months. As a result, the number of permits issued in February stood 27 per cent below the September, 1980 level.

Nor is the housing situation much better once new homes are completed and brought to market. With the median price of new homes sold standing at over $67,000 in February and average commitment rates on new conventional mortgages at almost 15.40 per cent, new (and existing) home sales have plummeted. In February, new single-family homes were sold at a seasonally-adjusted annual rate of 487,000 units, 5.3 per cent below January levels, the fifth monthly decline in the past seven months. New home sales have, in fact, been ratcheting downward since last summer and, in February, stood more than 20 per cent below their July, 1980 level.

Sales of existing homes have also plummeted, reflecting the adverse impact of the same factors. Existing homes were sold at a seasonally-adjusted 2.56 million-unit annual rate in February, 0.8 per cent below their month-earlier level. This marked the fifth consecutive monthly drop in sales of existing homes, which now stand 15 per cent below their year-ago levels and more than 20 per cent below their late summer high.

. . . Will Dampen Mortgage Demand . . .

Put simply, the ever-escalating cost of existing homes (the median sales price reached $64,500 in January, up 11 per cent year-over-year), together with high mortgage interest rates, have priced an ever-expanding segment of the population out of the housing market. Even with a down payment in excess of 20 per cent on the median-priced home, principal and interest payments during the year on a 30-year, $50,000 conventional mortgage contracted at 15.50 per cent would absorb more than 40 per cent of the gross median family income ($18,650 in 1980). This level is well above the traditionally prudent, rule-of-thumb threshold of 25 per cent and would, of course, soar even higher when property taxes and insurance costs are included.

Thus, with the median-priced existing home (not to mention the median-priced new home) increasingly beyond the financial reach of the median-income household, housing starts and purchases have fallen sharply. These factors, together with the sluggish growth of deposit inflows at the nation's thrift institutions will probably ensure that both demand- and supply-side factors will tend to curb mortgage activity in coming months. Already, new mortgage commitments at savings and loan associations have weakened substantially, totaling in February, almost 30 per cent less than year-earlier levels.

. . . But Not Interest Rates

The sagging of mortgage credit demands has, in turn, heightened speculation that the financial markets may be better able to accommodate this year's massive Federal government borrowing requirements, without significant upward pressures on interest rates. The facts, however, indicate otherwise.

It is possible, of course, that thrift institutions may redirect their deposit flows away from stagnant mortgage lending windows, toward the acquisition of high yielding, short-term financial assets. This process has, in fact, already been occurring with a beneficial effect on the liquidity ratios of many thrift institutions, but with a less-than-noticeable effect in dampening upward interest rate pressures. For despite a massive 40 per cent drop in the value of new mortgage commitments authorized since 1978, interest rates have continued to soar. The average prime rate has risen from 10.80 per cent in the fourth quarter of 1978 to approximately 16.75 per cent in the fourth quarter of 1980, and averaged more than 20 per cent in January, 1981.

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What is more, the Federal deficit to be accommodated has ballooned. If current trends persist, the red ink total in the current fiscal year could reach almost $87 billion, just about equal to the total deficit of the two preceding fiscal years combined. To this total, must be added the ever-growing financing requirements of the off-budget and federally-sponsored agencies. As a result, slack in the mortgage market will be offset by a rising tide of Federal debt, still ensuring that a renewed interest rate upturn later this year remains a distinct possibility.

Factory Shipments And New Orders Weaken

Weakness has also spread beyond the housing sector New orders for, and shipments of, manufactured products fell in February month-over-month, for the first time since last summer. Most of the declines were concentrated among the nondurable goods producing industries such as petroleum, chemicals and food. However, producers of durables continued to post increases, albeit slight. The largest gain was registered by the primary and fabricated metals producers, in general, and the steel industry, in particular.

As a result of declining demand for nondurable goods, inventories rose by 1.1 per cent in February. Unlike January, nondurable goods manufacturers showed a larger increase than durable goods producers, although they normally represent only about

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 3/25/81	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	127.460	+ .016	+ 2.203
Loans to Depository Inst.	.888	+ .114	− 1.771
Float	2.783	− .479	− 1.589
Total Reserve Bank Credit	141.392	− .165	+ 4.211
Treasury Deposits with Federal Reserve Banks	3.242	+ .111	− .001
Currency Outside Banks	120.273	+ .272	+ 8.018
Member Bank Reserves:			
Required	39.464	− .027	− 3.527
Excess (Deficiency)	.107	− .236	+ .126
Total Reserves Held	39.571	− .263	− 3.401
Net Borrowed Reserves	.581	+ .343	− 1.923
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	98.309	+ .360	+21.911

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M-1A	363.3	− 22.1‡	− 2.2‡
M-1B	420.6	+ 7.5‡	+ 7.5‡
M-2 (February '81)	1,692.0	+ 5.2	+ 9.3
L (December '80)	2,372.0	+ 11.9	+ 10.2

† Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four week moving average.

New York Money Market

Offering Rates 4/3/81	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	12.70%	12.30%	12.00%
* Federal Agencies	12.90	12.90	13.00
* Project Notes—Taxfree (46% Taxable Equivalent)	11.57	12.04	N.A.
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	13.38	13.25	

‡ Finance Company Paper—Prime	
5-28 days	14.00%
30-59 days	13.00
60-89 days	12.50
90-270 days	12.38

‡* Bankers' Acceptances	
May	13.80%
Jun.	13.60
Jul.	13.50
Aug.	13.40
Sep.	13.25
Oct.	13.15

‡ Industrial Paper—Prime	
30-89 days	13.75%
90-120 days	13.63

† Federal Funds Effective Rate 15.75%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'80	$ 2,731	$ 2,637	$ 2,496
Gross National Product (1972 Dollars)*	4th Q'80	$ 1,486	$ 1,472	$ 1,491
Percent Change, Annual Rate	4th Q'80	3.8%	2.4%	0.6%
Change in Consumer Prices (all urban consumers)*	Feb '81	12.0%	8.4%	15.6%
Change in Producer Prices*	Mar '81n	15.6%	9.6%	13.2%
Civilian Employment (Thousands of Persons) †	Mar '81n	98,412	97,927	97,628
Unemployment as % of Civilian Labor Force †	Mar '81n	7.3%	7.3%	6.3%
Personal Income*	Feb '81	$ 2,314	$ 2,299	$ 2,086
Leading Indicators Composite Index (1967=100) †	Feb '81	136.3	136.7	134.1
Industrial Production Index (1967=100) †	Feb '81	150.8	151.5	152.6
Net Change in Consumer Installment Credit †	Jan '81	$ 0.87	$ 1.62	$ 2.73
U.S. Merchandise Trade Balance †	Feb '81n	−$ 2.16	−$ 4.37	−$ 4.79
Plant and Equipment Expenditures*	2nd Q'81	$317.29(a)	$310.59(a)	$294.36
Private Housing Starts (Thousands of Units)*	Feb '81	1,218	1,615	1,273
New Construction Expenditures*	Feb '81n	$ 252.5	$ 261.9	$ 248.7
Total Business Inventories †	Jan '81	$ 461.8	$ 456.8	$ 431.4
Total Business Sales †	Jan '81	$ 338.7	$ 332.5	$ 312.5

* Seasonally adjusted annual rate. † Seasonally adjusted. n Newly reported figure. a Anticipated.

34 per cent. However, more than one third of the rise in nondurable inventories was accounted for by the petroleum and coal industries. By contrast, stocks of these products normally make up only a little more than 10 per cent of total nondurable factory inventories. In the case of coal, there was a substantial buildup in stocks in anticipation of contract negotiations which have led to the current strike. Inventories of petroleum have risen sharply as demand has slackened.

Stocks of gasoline are currently at record levels and supplies of other refined products and crude oil are bulging. This has taken place despite the oil industries' drastic cut in operating capacity to 68.7 per cent, which is probably the lowest level in recent memory. Last year at this time capacity utilization was 78.2 per cent. Many of the major oil companies have been forced to shut down some of their refineries, to eliminate at least partially, the glut of oil on the market.

The growing supplies of oil in the face of slackening demand may result in some good news for consumers on the inflation front. More and more producers have been forced to cut wholesale prices to dealers, who may eventually pass them on to the consumers. But even if the cuts do not result in lower pump prices, they may at least put an end to the price spiral which has resulted from the most recent round of OPEC price hikes and crude oil price decontrol. H

Short Term Paper Outstanding
(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (3/18/81)	113,452	+ 1,244	+18,799
New York City (3/18/81)	27,581	+ 629	+ 7,079
Commercial Paper (3/18/81)	133,192	+ 716	+12,578

Bank Loans
(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/18/81)	169,571	+ 635	+ 7,217
New York City (3/18/81)	49,674	+ 255	+ 2,014

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/18/81)	423,449	+ 2,389	+20,250
New York City (3/18/81)	99,538	+ 1,416	+ 3,355

Financial Markets

	Friday 4/3/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	12.88%	– .19	– 2.81
180-Day Bills†	12.46	– .21	– 3.69
Longest Bills	12.04	– .13	– 3.77
Recent Issues:			
$12\frac{5}{8}$s 3/31/83 (When Issued)	13.56	N.A.	
$13\frac{3}{8}$s 3/31/85 (When Issued)	13.60	N.A.	
13s 11/15/90	13.40	+ .17	
$12\frac{3}{4}$s 11/15/10	12.92	– 1.03	
Municipals:			
Bond Buyer–20 Bond Index* (4/2/81)	10.21%	+ .12	+ .77
Blue List Total ($ Million)	$ 922	+ $ 32	+ $ 522
30-Day Visible Supply ($ Million)	$2,744	+ $ 29	+ $1,832
Total	$3,666	+ $ 61	+ $2,354
Corporates:			
Moody's Aa Composite (4/2/81)	13.87%	– .03	+ .13
Money Mgr.–30-Day Supply ($ Million)	$4,709	+ $571	+ $3,449
Stocks:			
Dow-Jones Averages:			
Industrials	1,007.11	+ 12.33	+ 222.98
Transportation	438.71	+ 8.42	+ 189.54
Utilities	109.46	+ 1.93	+ 7.43
65 Stocks	392.04	+ 6.02	+ 78.20
Standard and Poor's 500 Stocks	135.49	+ .84	+ 33.34
N.Y.S.E. Composite Index	78.14	+ .55	+ 20.19
N.Y.S.E. Avg. Daily Vol. for Week (000's)	48,188	– 9,480	+ 15,315

* 46% Taxable equivalent 18.91%.

† Bond equivalent.

International Rates

	Friday 4/3/81	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	14.63%	15.13%
1 month	14.63	15.00
3 month	14.75	15.13
6 month	14.50	15.25
1 year	14.50	15.06
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	13.70%	14.30%
Long Term (7 to 15 yrs.)	13.90	14.10

FOREIGN EXCHANGE SPOT RATES

New York Opening (4/3/81)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02867	34.88
Canada	.8449	1.1835
Denmark	.1492	6.7025
France	.1990	5.0250
Germany	.4699	2.1280
Italy	.0009425	1061.00
Japan	.004682	213.60
Mexico	.04203	23.79
Netherlands	.4239	2.3590
Switzerland	.5147	1.9430
U.K.	2.2100	.4525

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The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, APRIL 13, 1981

VOLUME XVIII, NUMBER 15

Consumer Spending Remains Strong . . .

Those who think the economy has slipped into another recession probably underestimate the strength of the consumer sector. It has become apparent that consumers think things will be getting better, hence they seem to be more willing to spend. Consumer spending, which accounts for about two-thirds of the GNP, has shown a remarkable resiliency so far in 1981. To some degree, strong retail sales for January and February were boosted by good weather. Similarly, substantial automobile price rebates offered by U.S. manufacturers raised car sales to the highest levels since the fall of 1979. But these factors alone do not account for the relatively buoyant pace of economic activity.

Consumer spending remained strong in March and there is every reason to believe that it will continue to do so in the near future. Consumers remain confident, as evidenced by their willingness to borrow. Total outstanding debt in February, 1981 expanded by the largest amount since February, 1980—the month immediately prior to the imposition of credit controls. Specifically, consumer credit outstanding in February expanded by a seasonally adjusted $2 billion from the previous month compared with an $869 million gain in January. Almost one-half of this rise came from increased automobile credit, which paralleled a strong increase in automobile sales fueled by generous manufacturer rebates.

New domestic car sales rose from a 6.4 million unit annual rate in December to 7 million units in January and 7.5 million units in February. The subsequent removal of some incentive programs in late March caused a drop in sales. These slumped to a 5.1 million unit annual rate during the last ten-day selling period, keeping the average to a 7.6 million unit pace for the month. However, since March sales still exceeded February's, further increases in automobile credit extensions may be expected.

. . . Bolstered By Brightening Attitudes

Meanwhile, credit has once again emerged as an important prop under retail sales. In February, 1980, 35 per cent of retail purchases were made with the use of credit. This ratio slowed to less than 29 per cent by midyear, in the wake of the Federal Reserve's credit controls, but reaccelerated again to 33 per cent this February. However, consumer liquidity has improved slightly since then, as people are now using 16.5 per cent of their disposable income to repay outstanding installment debt compared with 17.1 per cent a year ago.

Despite the sharp dip in new car sales at the end of March, surveys show that consumers intend to step up their purchases of large durables. The Consumer Confidence Index as reported by the Conference Board jumped more than ten points in March as consumer optimism over future business and employment prospects increased. Importantly, the Board's Buying Plans Index rose sharply. The survey showed car buying plans hitting the highest level in a year; 7.9 per cent of those responding intended to buy a new or used car, up from 7.3 per cent in February. Within the next six months, 2.9 per cent intend to buy a new home, up from 2.6 per cent in January. Major appliances were on the list of 25.3 per cent of the families, compared with 24.3 per cent in the previous month.

Purchasing activity, measured by a survey of the National Association of Purchasing Management, also points to strength in the near-term outlook for the economy. Almost one-third of respondents reported higher production levels in March compared with only 21 per cent in February. According to the survey, inventories fell while higher incoming orders were reported. Not surprisingly, the average workweek in manufacturing increased by 0.4 hours in March, a sharp contrast to February's decline of 0.3 hours.

Light At The End Of The Tunnel?

Meanwhile, there is a new mood of optimism in the business community about the future of the British economy. Business leaders who have spent the last two years and more struggling to bring inventories and employment levels into line with a very restrictive monetary policy now report increasing confidence that a turnaround is coming soon. The severe restraints on businesses and economic growth which were imposed by Mrs. Thatcher's Government have already slowed inflation, and the structural adjustments which were necessary to return businesses to

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a competitive stance in domestic and export markets have for the most part been completed. As a result, British businessmen feel that their prospects for profitability have brightened, and this in turn is reflected in plans for increased investment in modernizing the industrial sector. Interestingly, this growing optimism has developed in spite of the gloomy assessments of 364 academic economists who signed a manifesto last week condemning the economic policies of the Thatcher Government. Such unanimity among economists, particularly from the academic side of the profession, is unusual—not to say unique.

Certainly the statistics are mixed and much of the evidence is subjective and circumstantial. New home construction is increasing but from a very low base. Inventory reduction is continuing—albeit at a slower pace; normal levels at both the wholesale and the retail level have just been reached. Productivity has not fallen of late, and there is evidence of rising consumer demand and an increase in new orders flowing to industry. None of these trends is exceptionally strong, but in the absence of firm quantitative evidence of recovery, subjective indicators such as business expectations of improved sales and profits are encouraging.

There is no disputing the fact that the rate of inflation is slowing. The inflation rate in February

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 4/1/81	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	127.299	– .161	+ 1.537
Loans to Depository Inst.	1.464	+ .576	– .802
Float	2.549	– .287	– 1.175
Total Reserve Bank Credit	141.758	+ .313	+ 4.814
Treasury Deposits with Federal Reserve Banks	2.887	– .355	+ .676
Currency Outside Banks	120.177	– .096	+ 8.085
Member Bank Reserves:			
Required	39.642	+ .178	– 3.914
Excess (Deficiency)	.670	+ .510	+ .383
Total Reserves Held	40.312	+ .688	– 3.531
Net Borrowed Reserves	.574	+ .046	– 1.240
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	100.720	+ 2.411	+25.185

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M-1A	365.1	– 20.4‡	– 2.2‡
M-1B	423.8	+ 10.3‡	+ 7.8‡
M-2 (February '81)	1,692.2	+ 5.1	+ 9.3
L (December '80)	2,372.0	+ 11.9	+ 10.2

† Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 4/10/81	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	13.55%	13.30%	12.50%
* Federal Agencies	13.55	13.55	13.95
* Project Notes—Taxfree (46% Taxable Equivalent)	11.29	13.33	12.96
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	14.25	14.25	

‡ Finance Company Paper—Prime	
5- 29 days	14.63%
30- 89 days	14.00
90-270 days	13.00

‡* Bankers' Acceptances	
May	14.70%
Jun.	14.60
Jul.	14.55
Aug.	14.50
Sep.	14.20
Oct.	14.00

‡ Industrial Paper—Prime	
30- 89 days	14.75%
90-120 days	14.75

† Federal Funds Effective Rate 15.60%

‡ Discount basis.

* Subject to availability.

† Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'80	$ 2,731	$ 2,637	$ 2,496
Gross National Product (1972 Dollars)*	4th Q'80	$ 1,486	$ 1,472	$ 1,491
Percent Change, Annual Rate	4th Q'80	3.8%	2.4%	0.6%
Change in Consumer Prices (all urban consumers)*	Mar '81	12.0%	8.4%	15.6%
Change in Producer Prices*	Mar '81	15.6%	9.6%	13.2%
Civilian Employment (Thousands of Persons) †	Mar '81	98,412	97,927	97,628
Unemployment as % of Civilian Labor Force †	Mar '81	7.3%	7.3%	6.3%
Personal Income*	Feb '81	$ 2,314	$ 2,299	$ 2,086
Leading Indicators Composite Index (1967=100) †	Feb '81	136.3	136.7	134.1
Industrial Production Index (1967=100) †	Feb '81	150.8	151.5	152.6
Net Change in Consumer Installment Credit †	Feb '81n	$ 2.00	$ 0.87	$ 2.40
U.S. Merchandise Trade Balance †	Feb '81	–$ 2.16	–$ 4.37	–$ 4.79
Plant and Equipment Expenditures*	2nd Q'81	$317.29(a)	$310.59(a)	$294.36
Private Housing Starts (Thousands of Units)*	Feb '81	1,218	1,615	1,273
New Construction Expenditures*	Feb '81	$ 252.5	$ 261.9	$ 248.8
Total Business Inventories †	Jan '81	$ 461.8	$ 456.8	$ 431.4
Total Business Sales †	Jan '81	$ 338.7	$ 332.5	$ 312.5

* Seasonally adjusted annual rate.

† Seasonally adjusted.

n-Newly reported figure.

a-Anticipated.

was 12.5 per cent compared with a 15 per cent annual rate last December. One year ago British inflation was running at a 22 per cent annual rate. No doubt this improvement is a major factor in the brightening of business attitudes.

Problems With Weekly Money Statistics

The recent volatility of the weekly money supply statistics and subsequent interest rate gyrations has again raised doubts as to the usefulness of releasing money supply data with such frequency. These statistics, juxtaposed with quarterly and annual target ranges, have caused people to pay an undue amount of attention to the weekly data which are, by and large, statistically unsound. Any weekly number tends to be mostly influenced by random events and contains a lot of statistical noise, and the money supply is no exception.

What is more, the significance of the weekly statistics, and perhaps the narrowly-defined monetary aggregates themselves, has been called into question by the massive interdeposit shifts now underway as a result of the nationwide introduction of NOW accounts and the surging popularity of money market funds. During the 13 weeks ending March 25, for example, M-1A contracted at a 22 per cent seasonally-adjusted annual rate while M-1B expanded at a 7.6 per cent annual rate. But rather than indicating underlying trends in the transactions

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (3/25/81)	112,612	– 840	+18,003
New York City (3/25/81)	27,888	+ 307	+ 7,179
Commercial Paper (3/25/81)	132,552	– 1,658	+12,991

Bank Loans

(Millions of Dollars)

Weekly Reporting Large Commercial Banks	**Commercial and Industrial Loans** Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/25/81)	169,645	+ 55	+ 8,273
New York City (3/25/81)	49,667	– 7	+ 2,782

	Total Loans Gross Adjusted Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/25/81)	422,397	– 1,005	+23,592
New York City (3/25/81)	98,569	– 968	+ 9,834

Financial Markets

	Friday 4/10/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	13.90%	+ 1.02	– 1.30
180-Day Bills†	13.70	+ 1.24	– 1.80
Longest Bills	12.80	+ .76	– 2.10
Recent Issues:			
$12\frac{5}{8}$s 3/31/83	13.94	+ .38	
$12\frac{3}{8}$s 3/31/85	14.02	+ .42	
13s 11/15/90	14.25	+ .85	
$12\frac{3}{4}$s 11/15/10	14.15	+ 1.23	
Municipals:			
Bond Buyer–20 Bond Index* (4/9/81)	10.45%	+ .24	+ 1.38
Blue List Total ($ Million)	$ 830	– $ 92	+ $ 474
30-Day Visible Supply ($ Million)	$2,611	– $133	+ $1,083
Total	$3,441	– $225	+ $1,657
Corporates:			
Moody's Aa Composite (4/9/81)	14.29%	+ .42	+ .79
Money Mgr.–30-Day Supply ($ Million)	$5,032	$323	+ 3,627
Stocks:			
Dow-Jones Averages:			
Industrials	1,000.27	– 6.84	+ 208.72
Transportation	446.29	+ 7.58	+ 195.61
Utilities	107.53	– 1.93	+ 1.10
65 Stocks	391.97	– .07	+ 103.39
Standard and Poor's 500 Stocks	134.51	– .98	+ 30.72
N.Y.S.E. Composite Index	77.77	– .37	+ 18.77
N.Y.S.E. Avg. Daily Vol. for Week (000's)	50,782	+ 2,594	+ 19,176

* 46% Taxable equivalent 19.35%.

† Bond equivalent.

International Rates

	Friday 4/10/81	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	15.50%	14.63%
1 month	15.75	14.63
3 month	15.88	14.75
6 month	15.88	14.50
1 year	15.25	14.50
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	13.80%	13.70%
Long Term (7 to 15 yrs.)	13.90	13.90

FOREIGN EXCHANGE SPOT RATES

New York Opening (4/10/81)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02843	35.17
Canada	.8448	1.1837
Denmark	.1481	6.7525
France	.1974	5.0650
Germany	.4657	2.1475
Italy	.0009354	1069.00
Japan	.004664	214.40
Mexico	.04205	23.78
Netherlands	.4206	2.3775
Switzerland	.5109	1.9572
U.K.	2.1870	.4572

demand for credit or the overall pace of economic activity, the primary factor accounting for the rise in M-1B has been a more than $30 billion surge in other checkable deposits outstanding (primarily NOW accounts).

Yet, this has not deterred the markets from plotting the weekly levels of the money supply, comparing the results with the Fed's target ranges and then passing superficial judgments as to the seeming success or failure of monetary policy in promoting non-inflationary, "real" economic growth. These ongoing efforts to anticipate the central bank's operating tactics have clearly contributed to heightened financial market and interest rate instability. Dispensing with the weekly money supply release, as the Fed is now considering, would go a long way toward discouraging such behavior.

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The Manufacturers
Hanover
Financial
Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, APRIL 20, 1981
VOLUME XVIII, NUMBER 16

Petroleum Conservation Continues . . .

Despite a slight increase in total sales of retail stores in March, sales at gasoline stations declined by 0.6 per cent from the previous month to $8.5 billion, standing only 0.6 per cent above year-ago levels. What is more, when the sharp increase in gasoline prices over the past year is factored out, the decline in "real" sales is a steep 14 per cent from a year ago. This decline continues a two-year trend in energy conservation as consumers and industry alike have slashed consumption drastically. Demand for petroleum declined by eight per cent in 1980, following a 1.8 per cent drop during 1979.

The cutback in petroleum use has been the result of several factors. To some degree, last year's recession dampened demand. However, increased conservation efforts in response to price rises have contributed most significantly, as consumers demonstrated an ever-increasing sensitivity to price. Finally, there has been considerable application and use of such alternate energy sources and fuels as coal, natural gas and wood. For example, last year, less than 45 per cent of all energy consumed domestically was derived from petroleum, while in 1978 it accounted for nearly 50 per cent. In contrast, the use of coal rose from 17.7 per cent of the total in 1978 to just under 21 per cent in 1980. During this two-year period, the use of such nontraditional fuels as geothermal power and electricity produced from wood and waste—although still negligible—has doubled.

. . . Causing Oil Inventories To Soar

More than three-quarters of the two-year decline in petroleum consumption has been a result of lower gasoline and home heating oil demand. Motorists reduced their consumption of gasoline by 11 per cent during this time, while homeowners cut their heating fuel deliveries by 16.5 per cent. Similarly, industrial use of refined petroleum products such as residual fuel oil used for the production of electric power, space heating and various other industrial purposes, has been reduced substantially.

As a result, stocks of crude oil and refined products have surged. At the current rate of consumption, gasoline inventories represent 45 days of supply—about two weeks above normal levels. The oil companies have been forced to slash production, and some less efficient refineries have been mothballed—thus cutting operating capacity to the lowest rate in almost 50 years. Importantly, the United States now imports 1.8 million fewer barrels per day than just two years ago. However, imports may not be cut much further at this time, since long-term supply contracts would appear to hamper the ability of the oil companies to alter import quantities.

Passenger Car Efficiency Improves

Serious conservation efforts began about two years ago when the OPEC nations suddenly doubled the price of crude petroleum and caused temporary supply shortages. Upset by pre-dawn trips to the filling stations and threats of continued rationing and price hikes, motorists turned to smaller, more fuel-efficient cars almost immediately. Domestic auto manufacturers were caught completely unprepared as production was geared toward the large, luxury size cars. Thus, buyers shifted to the import market, sending domestic sales through the floor. Two years ago, compact and subcompact cars represented slightly more than one-third of all domestic cars sold. In 1980 the percentage rose to 50 per cent—and is running at 53.3 per cent currently. When foreign cars are included, the ratio increases further as an even larger portion of imported cars is in the compact or subcompact category.

PASSENGER CAR EFFICIENCY

Year	Average Miles Traveled per Car	÷	Average Number of Gallons Consumed per Car	=	Average Miles Traveled per Gallon of Fuel Consumed
1976	9,763		711		13.73
1977	9,839		706		13.94
1978	10,046		715		14.05
1979	9,485		664		14.28
1980	9,390		638		14.72

Source: Department of Energy
Federal Highway Administration

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Not only have motorists sacrificed the size and comfort of their cars for better mileage, but they have gotten off the road as well. Carpools have been formed, unnecessary trips have been eliminated and many drivers have turned to public transportation. As the table shows, the average distance traveled per car per year has declined from 10,046 miles in 1978 to 9,390 miles in 1980, according to the Federal Highway Administration's estimates. The typical car's consumption of gasoline dropped by 11 per cent during this time period. What is more, the drop in fuel consumption was greater than the average number of miles traveled, indicating an improvement in energy efficiency of more than four per cent during this time.

Gloom in Germany

In contrast with the slightly more optimistic mood among British businessmen about their economy (Financial Digest—April 13, 1981), the feeling among German businessmen and economists is one of unremitting gloom. This dark view of the near-term prospects for the German economy, in spite of a few scattered signs of improvement— for example, export orders in January were up six per cent over December—is widespread. Last week, the five major economic research institutes in Germany issued a joint report which was unanimous in confirming the existence of a recession, and forecasted its continuance through at least the middle of 1981—if not through the entire year. Further, one of the insti-

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

Reserve Bank Credit	Week Ending 4/8/81	$ Change Since Week Ago	$ Change Since Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	127.118	– .181	+ .549
Loans to Depository Inst.	.887	– .577	– 1.499
Float	2.850	+ .349	– 1.231
Total Reserve Bank Credit	140.957	– .749	+ 3.004
Treasury Deposits with Federal Reserve Banks	2.863	– .024	+ .605
Currency Outside Banks	120.846	+ .669	+ 8.133
Member Bank Reserves:			
Required	38.837	– .805	– 5.295
Excess (Deficiency)	.055	– .560	– .103
Total Reserves Held	38.892	– 1.365	– 5.398
Net Borrowed Reserves	.670	+ .041	– 1.363
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	100.038	– .682	+24.855

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M-1A	365.3	– 19.5‡	– 2.0‡
M-1B	428.7	+ 10.6‡	+ 8.4‡
M-2 (March '81)	1,714.2	+ 10.1	+ 10.3
L (January '81)	2,393.3	+ 13.4	+ 10.5

† Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 4/17/81	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	13.60%	13.45%	12.80%
* Federal Agencies	14.60	14.40	14.11
* Project Notes—Taxfree (46% Taxable Equivalent)	11.57	11.57	13.24
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	15.00	15.00	

‡ Finance Company Paper—Prime	
5- 29 days	14.50%
30- 89 days	14.25
90-119 days	14.00
120-179 days	12.00
180-270 days	11.50

‡* Bankers' Acceptances	
May	14.95%
Jun.	14.90
Jul.	14.85
Aug.	14.80
Sep.	14.70
Oct.	14.60

‡ Industrial Paper—Prime	
30- 89 days	14.75%
90-120 days	14.75

† Federal Funds	
Effective Rate	15.04%

‡ Discount basis.

* Subject to availability.

† Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'80	$ 2,731	$ 2,637	$ 2,496
Gross National Product (1972 Dollars)*	4th Q'80	$ 1,486	$ 1,472	$ 1,491
Percent Change, Annual Rate	4th Q'80	3.8%	2.4%	0.6%
Change in Consumer Prices (all urban consumers)*	Feb '81	12.0%	8.4%	15.6%
Change in Producer Prices*	Mar '81	15.6%	9.6%	13.2%
Civilian Employment (Thousands of Persons)†	Mar '81	98,412	97,927	97,628
Unemployment as % of Civilian Labor Force†	Mar '81	7.3%	7.3%	6.3%
Personal Income*	Mar '81n	$ 2,335	$ 2,317	$ 2,101
Leading Indicators Composite Index (1967=100)†	Feb '81	136.3	136.7	134.1
Industrial Production Index (1967=100)†	Mar '81n	151.7	151.1	152.1
Net Change in Consumer Installment Credit†	Feb '81	$ 2.00	$ 0.87	$ 2.40
U.S. Merchandise Trade Balance†	Feb '81	–$ 2.16	–$ 4.37	–$ 4.79
Plant and Equipment Expenditures*	2nd Q'81	$317.29(a)	$310.59(a)	$294.36
Private Housing Starts (Thousands of Units)*	Mar '81n	1,284	1,214	1,040
New Construction Expenditures*	Feb '81	$ 252.5	$ 261.9	$ 248.8
Total Business Inventories†	Feb '81n	$ 470.0	$ 465.1	$ 435.2
Total Business Sales†	Feb '81n	$ 345.2	$ 345.6	$ 310.2

* Seasonally adjusted annual rate.

† Seasonally adjusted.

n-Newly reported figure.

a-Anticipated.

tutes reported that its business climate survey dropped 2.4 points between December and January, confirming the continuing deterioration in the manufacturing sector.

The German report forecasts a 1.5 per cent decline in real GNP in 1981 after 1.8 per cent growth in 1980. Other negative findings include the prospect for an average of 1.25 million unemployed in 1981 compared with 890,000 in 1980. The rate of inflation, however, is expected to decline to an average of five per cent for this year, ending at an annual rate of four per cent. In 1980, prices rose an average of 5.5 per cent. Finally, industrial capacity utilization has been below 80 per cent since the end of last year.

A reflection of the economic malaise afflicting West Germany is the continuing current account deficit. Although down from 1980's record deficit of $15 billion, this year's deficit will still be in the neighborhood of $12 billion. While the major contributor to these deficits has been energy imports, there has been a sharp rise in imports of finished goods—Japanese automobiles, for example. Many of these are products of which Germany has traditionally been a net exporter.

Some improvement in Germany's export trade is expected in the latter half of 1981, once her trading partners show improved economic performance. Exports should also benefit somewhat from the

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (4/1/81)	111,636	− 976	+18,073
New York City (4/1/81)	27,359	− 529	+ 6,888
Commercial Paper (4/1/81)	133,051	+ 499	+13,626

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/1/81)	172,790	+ 3,106	+ 9,862
New York City (4/1/81)	51,026	+ 1,359	+ 3,021

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/1/81)	429,992	+ 7,593	+22,827
New York City (4/1/81)	103,339	+ 4,770	+10,018

Financial Markets

	Thursday 4/16/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	13.70%	− .20	− .47
180-Day Bills†	13.45	− .25	− .36
Longest Bills	12.88	+ .08	− .22
Recent Issues:			
$12\frac{5}{8}$s 3/31/83	14.09	+ .15	
$13\frac{3}{8}$s 3/31/85	14.05	+ .02	
13s 11/15/90	13.76	− .49	
$12\frac{3}{4}$s 11/15/10	13.29	− .86	
Municipals:			
Bond Buyer—20 Bond Index*	10.70%	+ .25	+ 2.81
Blue List Total ($ Million)	$ 827	− $ 3	+ $ 424
30-Day Visible Supply ($ Million)	$2,778	+ $167	+ $1,031
Total	$3,605	+ $164	+ $1,455
Corporates:			
Moody's Aa Composite	14.33%	− .04	+ 1.40
Money Mgr.—30-Day Supply ($ Million)	$5,765	+ $733	+ $4,662
Stocks:			
Dow-Jones Averages:			
Industrials	1,005.58	+ 5.31	+ 242.18
Transportation	447.38	+ 1.09	+ 209.21
Utilities	107.16	− .37	+ .56
65 Stocks	393.19	+ 1.22	+ 114.17
Standard and Poor's 500 Stocks	134.70	+ .19	+ 34.15
N.Y.S.E. Composite Index	77.76	− .01	+ 20.55
N.Y.S.E. Avg. Daily Vol. for Week (000's)	51,895	+ 1,113	+ 22,033

* 46% Taxable equivalent 19.81%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	**Friday 4/17/81**	Week Ago
Overnight	15.50%	15.50%
1 month	15.88	15.75
3 month	16.44	15.88
6 month	16.44	15.88
1 year	15.75	15.25
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	14.10%	13.80%
Long Term (7 to 15 yrs.)	14.20	13.90

FOREIGN EXCHANGE SPOT RATES

New York Opening (4/17/81)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02793	35.81
Canada	.8348	1.1979
Denmark	.1455	6.8750
France	.1933	5.1725
Germany	.4572	2.1870
Italy	.0009182	1,089.00
Japan	.004602	217.30
Mexico	.04177	23.94
Netherlands	.4124	2.4250
Switzerland	.5015	1.9940
U.K.	2.1500	.4651

depreciation of the mark against the dollar, although against the currencies of the EMS countries, with whom Germany does much of its trade, the mark has hardly budged. German labor costs continue to be among the highest in the world, and if wages go up much further, they will not only add to unit labor costs, but will also diminish the prospects for increased investment needed to improve productivity. As a result, the industrial relations climate may become more strained than in the past.

The difference between the improved British outlook and the negative German mood might be explained less by objective economic statistics than by where each economy has come from in recent years. After many years of high inflation and large current account deficits, the United Kingdom has seen some improvement, and the possibility for more. In contrast, West Germany, formerly the paragon of economic rectitude, has seen its carefully structured economy deteriorate rapidly in the last two years.

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The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, APRIL 27, 1981

VOLUME XVIII, NUMBER 17

The Interest Rate Spiral . . .

Both short- and long-term interest rates ratcheted upward sharply in recent weeks reflecting the impact of a variety of negative economic and financial developments. Among the more important: A recent burst of monetary growth above the Federal Reserve's first quarter target ranges, an unexpectedly large bulge in commercial and industrial loans outstanding during the last week in March, pressure on commercial banks' reserve positions and volatile reactions to these developments by financial market participants. As a result, short-term interest rates increased by an average of 100 to 200 basis points during the month ending April 23, while bond yields also moved sharply higher--many to new record highs. Top-quality corporate yields increased from 75 to 100 basis points during the month, and long-term U.S. governments, Federal agencies and municipal bond rates all moved substantially higher.

Despite the upturn in the growth of the monetary aggregates and the resumed rise in the Federal funds rate, no substantial tightening of monetary policy is expected—yet. The levels of both M-1A and M-1B remain either below or within the Federal Reserve's longer-run annual growth targets. In addition, with the "real" economy currently losing momentum, the housing and automobile industries still extremely weak and the nation's thrift institutions again experiencing a renewed round of substantial disintermediation, the central bank will think twice before adopting a significant firming of monetary policy.

On the other hand, should the recent resurgence of money supply growth persist for another few weeks and the economy expand more rapidly than expected, the Fed will have to move aggressively to restrain the growth of bank reserves. What is more, the broader aggregate M-2 is now expanding at a rate in excess of its upper target boundary—at a 10.1 per cent seasonally-adjusted annual rate in the first quarter, well above the six to nine per cent target range for the year as a whole. At a time when massive interdeposit shifts are clouding the significance of short-run changes in the levels of M-1A and M-1B (Financial Digest—April 13, 1981), this trend can not help but dismay the monetary authorities.

. . . Should Run Its Course . . .

Looking ahead, however, the fundamentals still remain positive for the financial markets, suggesting that the recent uptick in interest rates may soon run its course. More specifically, the pace of economic activity has begun to fade. Despite a sizable 6.5 per cent, seasonally adjusted annual rate rise in real GNP in the first quarter of 1981, it is important to note that these statistics are backward, rather than forward, looking. It now appears that the economy slowed in February and March, although it is unlikely that a substantial decline is in the offing. Among the more recent signals that growth will slow: The third consecutive monthly drop in the index of leading economic indicators in February, a modest easing of new factory orders in February (although new factory orders for durable goods only rose strongly in March), and a steep plunge in new housing starts and new building permits issued in February, which was only partially made up in March.

Even the inflation rate's performance may improve somewhat, although substantial relief is still some months away. Hopefully, the worst inflation news is behind us, especially in light of the spreading softness in oil and energy prices. Since energy-related price increases have been largely responsible for the relatively high rates of inflation experienced in recent months, the stabilization of these prices should result in more moderate rates of inflation later this spring. In March, for example, the consumer price index advanced 0.6 per cent month-over-month, even with a two per cent rise in energy prices.

. . . Later This Spring

Another favorable development expected later this spring is a renewed slowing of money supply growth. The recent burst of monetary growth above the Federal Reserve's first quarter target ranges appears primarily related to the sharp rise in NOW accounts and other checkable deposits. In addition, a good-sized portion of the rise in M-1B during the past two weeks may well have reflected tax payment-related credit needs, not any permanent shift into these particular balances.

Finally, short-term business loan demand at the nation's commercial banks remains sluggish. Despite

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a more than $3 billion bulge in commercial and industrial loans outstanding during the last week in March, short-term business loan demand at the nation's commercial banks is comparatively weak, reflecting the combined impact of stiff competition from the commercial paper market as well as stepped-up financing by business in the long-term bond markets. During the 13 weeks ending April 8, for example, commercial and industrial loans outstanding at large weekly reporting banks have contracted at an almost five per cent seasonally-adjusted annual rate, and at an almost eight per cent annual rate during the past eight weeks. Interestingly, business borrowings from foreign branches of U.S. banks increased by $2.7 billion in the first quarter of 1981.

On balance, a slowing in the momentum of the economy, less inflation, sluggish monetary growth, and continued softness in business credit demands should lead to a resumption of short-term interest rate declines before long. Beyond midyear, however, interest rates could rise somewhat, reflecting a stronger pace in private economic activity and—even more important—substantial borrowing requirements from the Treasury.

Food Prices May Rise Faster . . .

Despite the recent declines in agricultural commodity prices and the relatively slow rise in food prices as measured by March's consumer price index, there are some indications that farm products' prices could increase substantially later this year. Supplies

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 4/15/81	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	128.505	+ 1.387	+ 1.940
Loans to Depository Inst.	1.142	+ .255	– 1.134
Float	3.376	+ .524	– .511
Total Reserve Bank Credit	143.171	+ 2.214	+ 5.300
Treasury Deposits with Federal Reserve Banks	3.033	+ .170	+ 1.777
Currency Outside Banks	121.799	+ .951	+ 8.739
Member Bank Reserves:			
Required	39.620	+ .783	– 5.016
Excess (Deficiency)	.275	+ .224	+ .068
Total Reserves Held	39.895	+ 1.007	– 4.948
Net Borrowed Reserves	.718	+ .044	– 1.211
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	100.171	+ .133	+26.980

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M-1A	363.4	– 16.5‡	– 1.6‡
M-1B	429.0	+ 11.8‡	+ 9.3‡
M-2 (March '81)	1,714.2	+ 9.8	+ 10.3
L (January '81)	2,393.3	+ 13.4	+ 10.5

†Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 4/24/81	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	13.55%	13.52%	12.95%
* Federal Agencies	14.30	14.30	14.15
* Project Notes—Taxfree (46% Taxable Equivalent)	12.04	13.24	12.87
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	15.00	14.75	

‡Finance Company Paper—Prime	
5- 14 days	13.50%
15- 29 days	14.00
30- 59 days	14.50
60-119 days	14.00
120-270 days	13.00

‡* Bankers' Acceptances	
May	14.80%
Jun.	14.75
Jul.	14.70
Aug.	14.65
Sep.	14.45
Oct.	14.40

‡Industrial Paper—Prime	
30- 89 days	14.63%
90-120 days	14.70

†Federal Funds Effective Rate 15.50%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'81n	$ 2,827	$ 2,731	$ 2,572
Gross National Product (1972 Dollars)*	1st Q'81n	$ 1,509	$ 1,486	$ 1,502
Percent Change, Annual Rate	1st Q'81n	6.5%	3.8%	3.1%
Change in Consumer Prices (all urban consumers)*	Mar '81n	7.2%	12.0%	15.6%
Change in Producer Prices*	Mar '81	15.6%	9.6%	13.2%
Civilian Employment (Thousands of Persons) †	Mar '81	98,412	97,927	97,628
Unemployment as % of Civilian Labor Force†	Mar '81	7.3%	7.3%	6.3%
Personal Income*	Mar '81	$ 2,335	$ 2,317	$ 2,101
Leading Indicators Composite Index (1967=100) †	Feb '81	136.3	136.7	134.1
Industrial Production Index (1967=100) †	Mar '81	151.7	151.1	152.1
Net Change in Consumer Installment Credit†	Feb '81	$ 2.00	$ 0.87	$ 2.40
U.S. Merchandise Trade Balance†	Feb '81	–$ 2.16	–$ 4.37	–$ 4.79
Plant and Equipment Expenditures*	2nd Q'81	$317.29(a)	$310.59(a)	$294.36
Private Housing Starts (Thousands of Units)*	Mar '81	1,284	1,214	1,040
New Construction Expenditures*	Feb '81	$ 252.5	$ 261.9	$ 248.8
Total Business Inventories†	Feb '81	$ 470.0	$ 465.1	$ 435.2
Total Business Sales†	Feb '81	$ 345.2	$ 345.6	$ 310.2

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

of pork and beef continue to tighten as ranchers, confronted with high production costs, have learned from last year's mistakes and are attempting to avoid losses this year. Although the winter wheat crop looks relatively favorable, as topsoil moisture improved in most areas and temperatures moved above normal, substantially more rain will be needed for a successful summer grain crop.

The most recent Department of Agriculture report on planting intentions shows a slight increase in planned acreage for major crops from 1980. However, supplies are still difficult to determine because of several factors. The survey was conducted on March 1, or about two months before farmers actually start planting. The 1981 crop potential depends on timely rainfall during the planting and growing season, but subsoil moisture is still far from adequate in most areas, and many experts have voiced concerns about a repeat of last year's heat and drought in the Farm Belt. Other factors include changes in the cost of production relative to market price, current cash commodity prices, economic conditions and the international political climate—such as last Friday's lifting of the embargo on grain shipments to the Soviet Union by the U.S. government.

. . . As Supplies Tighten

During the first quarter of 1981, red meat supplies were larger and prices lower than expected earlier. This occurred in part because farmers reduced their

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (4/8/81)	110,971	– 569	+16,425
New York City (4/8/81)	27,417	+ 58	+ 6,354
Commercial Paper (4/8/81)	134,684	+ 1,633	+12,668

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/8/81)	171,228	– 1,554	+ 8,826
New York City (4/8/81)	50,323	– 703	+ 2,627

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/8/81)	424,674	– 5,396	+19,342
New York City (4/8/81)	99,908	– 3,431	+ 8,278

Financial Markets

	Friday 4/24/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	14.00%	+ .30	+ 1.56
180-Day Bills†	13.93	+ .48	+ 1.50
Longest Bills†	13.25	+ .37	+ 1.43
Recent Issues:			
$12\frac{5}{8}$s 3/31/83	14.45	+ .36	
$13\frac{3}{8}$s 3/31/85	14.22	+ .17	
13s 11/15/90	13.65	– .11	
$12\frac{3}{4}$s 11/15/10	13.14	– .15	
Municipals:			
Bond Buyer–20 Bond Index* (4/23/81)	10.80%	+ .10	+ 2.69
Blue List Total ($ Million)	$ 865	+ $ 38	+ $ 176
30-Day Visible Supply ($ Million)	$2,252	– $526	+ $ 734
Total	$3,117	– $488	+ $ 910
Corporates:			
Moody's Aa Composite (4/23/81)	14.59%	+ .26	+ 3.07
Money Mgr.–30-Day Supply ($ Million)	$6,191	+ $426	+ $4,783
Stocks:			
Dow-Jones Averages:			
Industrials	1,020.35	+ 14.77	+ 216.77
Transportation	441.80	– 5.58	+ 200.61
Utilities	106.47	– .69	+ 2.09
65 Stocks	394.16	+ .97	+ 105.43
Standard and Poor's 500 Stocks	135.14	+ .44	+ 29.98
N.Y.S.E. Composite Index	78.05	+ .29	+ 18.32
N.Y.S.E. Avg. Daily Vol. for Week (000's)	59,388	+ 7,493	+ 22,860

* 46% Taxable equivalent 20.00%.

† Bond equivalent.

International Rates

	Friday 4/24/81	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	15.63%	15.50%
1 month	16.00	15.88
3 month	16.25	16.44
6 month	16.25	16.44
1 year	15.56	15.75
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	14.10%	14.10%
Long Term (7 to 15 yrs.)	14.30	14.20

FOREIGN EXCHANGE SPOT RATES New York Opening (4/24/81)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02817	35.50
Canada	.8375	1.1940
Denmark	.1456	6.8700
France	.1938	5.1590
Germany	.4590	2.1788
Italy	.0009199	1087.00
Japan	.004639	215.55
Mexico	.04186	23.89
Netherlands	.4130	2.4215
Switzerland	.5031	1.9875
U.K.	2.1660	.4617

cattle inventories and slaughtered more animals. They thus sent more meat to market and temporarily drove prices down. Increased slaughter activity led to a four per cent reduction in cattle and calves inventory in feedlots on April 1 from a year ago, to the lowest level for any April since 1975. Another reason was last year's mild winter which caused above average rates of weight gain so that both cattle and hogs reached market weight faster than usual. Also, low forage supplies, due to last year's drought, contributed to increased slaughter of grazing cattle. As a result, beef production in the first quarter was six per cent above a year ago.

According to the USDA planting intentions report, farmers intend to seed only about 2.5 per cent more acres to the 14 major crops than a year ago. However, they plan to plant 0.1 per cent less corn—one of the commodities affected the worst by last year's drought—as soil moisture levels remain very low in some parts of the Corn Belt. Meanwhile, food and industrial demand for corn is expected to expand, exerting upward pressure on prices. Importantly, corn sweetener production is likely to rise with the improvement in economic activity in the second half of the year and increased substitution for sugar. Similarly, gasohol production is expected to expand.

Despite the decline in planned corn acreage, total feed grain planting indications were up 600,000 acres, mostly as a result of more barley and oats acreage, both of which are less affected by adverse weather conditions. Should the dry weather continue, soybean and corn planting may decrease still further, and may be substituted in the South and Midwest by grain sorghum, which requires less moisture and is more drought tolerant.

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Paul Au
Assistant Secretary

In New York:
350 Park Avenue
New York, New York 10022
Tel: (212) 350-3201, 350-6924
Telex: 232337

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The Manufacturers Hanover Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, MAY 4, 1981

VOLUME XVIII, NUMBER 18

The Economy Seems Strong . . .

During the first quarter of this year, the "real" gross national product finally regained the level reached before the onset of the recession a year ago. The nation's output of goods and services expanded at a hefty 6.5 per cent seasonally adjusted annual rate compared with the final quarter in 1980. Although much of the upward momentum developed in the fourth quarter of 1980 has since dissipated, an analysis of the various monthly statistics reveals that the GNP actually advanced slightly in March, month-over-month, after a sharp contraction in February, but still remained well below January's high level.

One major factor contributing to the robust rise in real output was a seemingly marked slowing in the rate of inflation. Unadjusted for inflation, the GNP rose at a 14.9 per cent annual pace, the same as in the fourth quarter of 1980. However, the GNP report indicated that inflation—as measured by the implicit price deflator—eased significantly, falling to 7.8 per cent in the first quarter compared with 10.7 per cent in the previous quarter. As a result, more of the first quarter's gain in GNP was attributed to real growth, rather than price changes. Although most other measures of inflation showed some signs of improvement, the quarter's rates of rise were closer to ten per cent than eight per cent.

One possible reason for the better-than-expected price performance was the statistical impact of substantial auto price rebates. The GNP deflator is usually a good measure of inflation since it incorporates changes in consumer preferences in contrast to the consumer price index or the producer price index, both of which measure prices of fixed market baskets of goods. The deflator is particularly useful during periods of high inflation, when consumers adjust their spending habits to cope better with rising prices as they substitute cheaper products for more expensive ones. When those effects are excluded and the relative weights remain fixed, the deflator registered a more substantial 9.9 per cent advance. If the real GNP is recalculated using this new, higher deflator, growth narrows to about 4.4 per cent, only slightly more than the 4.2 per cent annual rate gain posted during the preceding quarter.

. . . While Inflation Eases

There are signs, however, that inflation is, indeed, slowing down. For example, the CPI increased at a 7.2 per cent seasonally adjusted annual rate in March, down from 12 per cent in February. Food commodity prices continued to decline as farmers sent large supplies of meat to the market. Energy prices have moderated and in some areas even declined because of the current worldwide glut of oil and increased conservation by consumers and industry. Even more important, the "core" rate of inflation--determined by long-term trends in wages and productivity—is falling.

Productivity at the nation's private businesses rose at a seasonally adjusted annual rate of 3.9 per cent during the first quarter of this year, the largest quarterly gain since late 1977. During 1980, productivity declined by 0.5 per cent. Wage increases reached in collective bargaining settlements were lower during the first quarter of 1981 than during 1980, as provisions for first year wage increases were nine per cent, down from 9.5 per cent.

The strong first quarter GNP results and the improvement on the inflation front may affect Congressional attitudes towards the Administration's proposal to cut income taxes by ten per cent each year for the next three years. Since the program is designed to stimulate economic growth and dampen the rate of inflation, many members of Congress may want it delayed or amended, in view of the fact that the economy appears to be stronger, and less inflationary, than expected.

The more encouraging March outcome and the outlook for the second quarter are underscored by the 1.4 per cent rise in the March index of leading indicators which had previously declined for three months in a row. Although most of the gain was due to a sharp jump in sensitive crude materials prices, reflecting surging crude oil prices resulting from oil price decontrol in January, six of the available indicators increased, one remained unchanged and only three declined. The composite index of coincident indicators, which tends to change simultaneously with economic activity, rose by 0.1 per cent in March, while the ratio of coincident to

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lagging indicators—which tends to signal turning points in the direction of the economy in advance of the index of leading indicators—rose by almost four percentage points from February.

The Shrinking Trade Deficit . . .

Although the precipitous fall in the merchandise trade deficit may owe something to a fortuitous combination of statistics, it represents principally the working out of a number of trends which have been apparent since the beginning of the year. Foremost among them has been the decline in the value of imported petroleum and petroleum products.

The merchandise trade deficit dropped sharply in March to $451 million (exports f.a.s., imports c.i.f., seasonally adjusted) from a deficit of $3.1 billion in February and $5.4 billion in January. This is the smallest merchandise trade deficit since November, 1975. If imports on the f.a.s. basis are measured against exports, then there was a trade surplus of close to $500 million last month.

Petroleum and related product imports, which amounted to $8.3 billion in January, fell slightly to $8.2 billion in February and then plunged 18.3 per cent in one month to $6.7 billion in March. The price of a barrel of oil rose on average in March to $37.28 from $36.89 in February, but the average daily volume of 5.5 million barrels in March (down from 7.5 million barrels per day in February) was the lowest since June, 1975.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 4/22/81	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	131.381	+ 2.876	+ 1.412
Loans to Depository Inst.	.864	− .278	− 1.689
Float	3.000	− .419	− .540
Total Reserve Bank Credit	145.684	+ 2.470	+ 4.205
Treasury Deposits with Federal Reserve Banks	3.969	+ .936	+ .607
Currency Outside Banks	122.888	+ 1.090	+ 9.335
Member Bank Reserves:			
Required	40.739	+ 1.119	− 4.515
Excess (Deficiency)	−.435	− .753	− .672
Total Reserves Held	40.304	+ .366	− 5.187
Net Borrowed Reserves	1.150	+ .475	− 1.007
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	100.591	+ .420	+28.186

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M-1A	365.7	− 12.4‡	+ 0.8‡
M-1B	432.1	+ 13.7‡	+ 11.3‡
M-2 (March '81)	1,714.1	+ 9.7	+ 10.3
L (January '81)	2,393.4	+ 13.4	+ 10.5

†Seasonally adjusted.

* Seasonally adjusted annual rate.

‡Four-week moving average.

New York Money Market

Offering Rates 5/1/81	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	14.55%	13.90%	13.00%
* Federal Agencies	15.00	15.31	14.81
* Project Notes—Taxfree (46% Taxable Equivalent)	12.96	14.07	14.44
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
*Secondary Market—Prime	15.25	14.75	

‡Finance Company Paper—Prime	
5- 14 days	16.00%
15- 29 days	16.63
30- 59 days	15.00
60- 89 days	14.50
90-119 days	14.00
120-179 days	13.50
180-209 days	14.00
210-270 days	12.00

‡* Bankers' Acceptances	
Jun.	16.40%
Jul.	16.25
Aug.	16.15
Sep.	16.00
Oct.	15.70
Nov.	15.40

‡Industrial Paper—Prime	
30- 89 days	16.25%
90-120 days	16.88

†Federal Funds Effective Rate 17-21%

‡Discount basis. • Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'81	$ 2,827	$ 2,731	$ 2,572
Gross National Product (1972 Dollars)*	1st Q'81	$ 1,509	$ 1,486	$ 1,502
Percent Change, Annual Rate	1st Q'81	6.5%	3.8%	3.1%
Change in Consumer Prices (all urban consumers)*	Mar '81	7.2%	12.0%	15.6%
Change in Producer Prices*	Mar '81	15.6%	9.6%	13.2%
Civilian Employment (Thousands of Persons)†	Mar '81	98,412	97,927	97,628
Unemployment as % of Civilian Labor Force†	Mar '81	7.3%	7.3%	6.3%
Personal Income*	Mar '81	$ 2,335	$ 2,317	$ 2,101
Leading Indicators Composite Index (1967=100)†	Mar '81n	137.1	135.2	131.5
Industrial Production Index (1967=100)†	Mar '81	151.7	151.1	152.1
Net Change in Consumer Installment Credit†	Feb '81	$ 2.00	$ 0.87	$ 2.40
U.S. Merchandise Trade Balance†	Mar '81n	$ 0.48	−$ 2.16	−$ 2.68
Plant and Equipment Expenditures*	2nd Q'81	$317.29(a)	$310.59(a)	$294.36
Private Housing Starts (Thousands of Units)*	Mar '81	1,284	1,214	1,040
New Construction Expenditures*	Mar '81n	$ 248.0	$ 254.0	$ 236.6
Total Business Inventories†	Feb '81	$ 470.0	$ 465.1	$ 435.2
Total Business Sales†	Feb '81	$ 345.2	$ 345.6	$ 310.2

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

Other imports fell as well. In March, imports of Japanese automobiles were 15 per cent below February, running at an annual rate of 1.5 million vehicles. This, incidentally, is below the 1.7 million level just agreed to by the Japanese at the behest of the Reagan Administration. But imports of machinery and transport equipment increased by 15.3 per cent. Overall, imports declined by 4.5 per cent in value in March from February levels and by 2.1 per cent over December, 1980. An unusual aspect of the decline in imports is that it occurred during a quarter when the U.S. economy grew by a hefty 6.5 per cent.

Exports, on the other hand, were 8.5 per cent higher in value in March than in February, reflecting a steady pattern of improvement in the first quarter. Every major category of exports except one (mineral fuels and products) was higher in March than in February. For the first quarter as a whole, the annual rate of exports was nine per cent above 1980, while imports showed an increase of seven per cent.

. . . Was Broadly Based

Thus, the decline in imports and growth of exports were broadly based, and although much of the improvement may prove transitory, such as declining oil imports, it does bode well for another good year for the current account. The Commerce Department earlier had estimated that there was a $1 billion surplus in exports of goods and services in

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (4/15/81)	111,658	+ 687	+17,410
New York City (4/15/81)	28,194	+ 777	+ 6,954
Commercial Paper (4/15/81)	135,129	+ 445	+13,928

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/15/81)	171,100	– 152	+ 8,844
New York City (4/15/81)	50,124	– 199	+ 2,660

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/15/81)	427,851	+ 3,140	+25,926
New York City (4/15/81)	101,625	+ 1,717	+10,979

Financial Markets

	Friday 5/1/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	15.39%	+ 1.39	+ 4.65
180-Day Bills†	15.21	+ 1.28	+ 4.13
Longest Bills†	14.96	+ 1.71	+ 3.85
Recent Issues:			
$12^{5}/_{8}$s 3/31/83	15.07	+ .62	
$13^{3}/_{8}$s 3/31/85	14.39	+ .17	
13s 11/15/90	14.06	+ .41	
$12^{3}/_{4}$s 11/15/10	13.57	+ .43	
Municipals:			
Bond Buyer–20 Bond Index* (4/30/81)	10.94%	+ .14	+ 2.98
Blue List Total ($ Million)	$ 810	– $ 55	+ $ 198
30-Day Visible Supply ($ Million)	$2,436	+ $184	+ $1,228
Total	$3,246	+ $129	+ $1,426
Corporates:			
Moody's Aa Composite (4/30/81)	14.80%	+ .21	+ 2.43
Money Mgr.–30-Day Supply ($ Million)	$6,610	+ $419	+ $1,209
Stocks:			
Dow-Jones Averages:			
Industrials	995.59	– 24.76	+ 184.67
Transportation	423.86	– 17.94	+ 176.34
Utilities	105.52	– 0.95	– 2.80
65 Stocks	383.24	– 10.92	+ 91.08
Standard and Poor's 500 Stocks	132.28	– 2.86	+ 26.7
N.Y.S.E. Composite Index	76.75	– 1.30	+ 16,70
N.Y.S.E. Avg. Daily Vol. for Week (000's)	51,886	– 7,502	+ 21,808

* 46% Taxable equivalent 20.26%.

† Bond equivalent.

International Rates

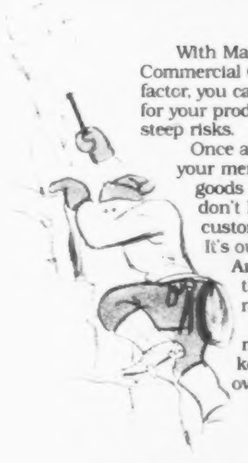
EURODOLLAR DEPOSIT RATES (bid)	Friday 5/1/81	Week Ago
Overnight	18.00%	15.63%
1 month	17.50	16.00
3 month	17.50	16.25
6 month	17.38	16.25
1 year	17.75	15.56
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	14.30%	14.10%
Long Term (7 to 15 yrs.)	14.40	14.30

FOREIGN EXCHANGE SPOT RATES

New York Opening (5/1/81)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02782	35.95
Canada	.8360	1.1962
Denmark	.1436	6.9650
France	.1907	5.2450
Germany	.4525	2.2100
Italy	.0009082	1101.00
Japan	.004633	215.85
Mexico	.04170	23.98
Netherlands	.4072	2.4560
Switzerland	.4950	2.0200
U.K.	2.1410	.4671

the first quarter of this year. If true, this represents a strong but not unprecedented performance in the services sector. Since the cumulative first quarter merchandise trade deficit this year (on the f.a.s. exports and imports basis) was about $6 billion, a $1 billion surplus on goods and services means that in the services account alone there was a $7 billion surplus. This is well below the performance of the services account in the first quarter of 1980, when there was a $10 billion surplus. However, due to a $10.8 billion trade deficit, the balance on goods and services in total was $809 million in the red.

The latest petroleum import data further suggest that economists' ideas about the role of petroleum in U.S. economic growth should be reconsidered. In the first quarter of 1980 when real GNP was $1,501.9 billion, the United States imported 764 million barrels of petroleum and petroleum products. In the first quarter of 1981 when real GNP was $1,509.2 billion (0.5 per cent higher), petroleum and petroleum product imports were 602 million barrels, 21 per cent less. Further, stocks of petroleum and petroleum products in the U.S. were slightly higher at the end of the first quarter of 1981 than at the end of the first quarter of 1980. Crude oil stocks alone were 5.2 per cent higher at the end of March, 1981 than at the same time last year. This improvement must take into account statistical anomalies and the great strides which have been made in energy conservation and substitution over the last year. Nonetheless, it also indicates that there is more room for conservation of energy, without diminishing growth, than many had thought. H



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The Manufacturers Hanover Financial Digest

Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, MAY 11, 1981

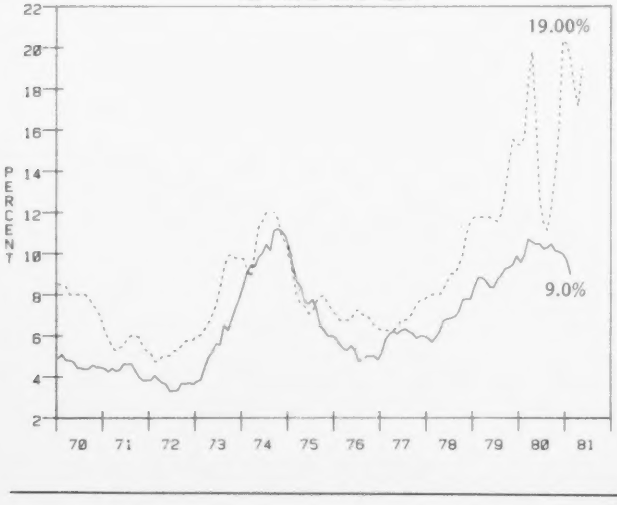
VOLUME XVIII, NUMBER 19

The Soaring "Real" Cost Of Borrowing . . .

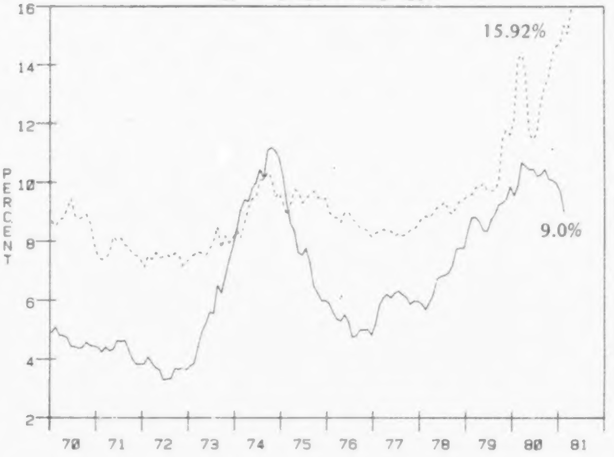
One of the more noteworthy features of current financial market developments is the ever-widening divergence between rates of inflation and interest. Over the past year, the rate of inflation as measured by every price index—whether the personal consumption expenditure deflator, consumer price index or producer price index—has decelerated significantly. The consumer price index, for example, increased at a 7.2 per cent seasonally adjusted annual rate in March, down from the 12 per cent annual rate of rise posted in February, and a more than 15 per cent annual rate of rise registered in March, 1980. What is more, much of the increase in the price indexes that is occurring still reflects the impact of the sharp escalation of energy prices that resulted from the OPEC-mandated oil price hikes in December and the decision to deregulate immediately domestic oil prices in late January. Once the diminishing effects of these actions pass completely through the price indexes even lower inflation rates can be expected.

But the cooling of inflation has not been paralleled by a similar moderation of interest rates. In fact, quite the opposite has occurred. Both short- and long-term interest rates have ratcheted upward sharply in recent weeks, reflecting the impact of a variety of negative economic and financial developments (Financial Digest—April 27, 1981). Short-term interest rates have increased by an average of three to four full percentage points since the end of March, while bond yields have also moved sharply higher—in this case, to new record highs. Top-quality corporate yields increased from 100 to 125 basis points during the period, and long-term governments, Federal agencies and municipal bond rates all moved substantially higher.

12-MONTH PERCENT CHANGE IN PCE DEFLATOR (LINE) VS. PRIME RATE (DOT)



12-MONTH PERCENT CHANGE IN PCE DEFLATOR (LINE) VS. AA UTILITY RATE (DOT)



As a result, with interest rates soaring and inflation rates decelerating, "real" interest rates and, of course, the real cost of borrowing have surged upward. As indicated in the chart to the left, the prime rate (at 19.00 per cent) now stands ten full percentage points above the most recent 12-month change in the personal consumption expenditures deflator (nine per cent).

This differential is just about double the average magnitude that existed in 1980 (5.04 percentage points)—and almost five times greater than the average differential which existed during the 1970-1980 period (2.11 points).

Similarly, lofty real borrowing costs now prevail in the long-term bond markets. With composite, new issue double-A utility yields standing at or near 16.00 per cent, the differential between these rates and the rate of inflation has reached a sizable 700 basis points (see chart above)!

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This gap is almost two and one-half times the spread that existed in 1980 (2.92 percentage points) and almost three times the size of the average differential that prevailed during the 1970-1980 interval (2.46 points).

. . . Does Not Augur Well For Business . . .

Clearly, with high-quality utility debt now yielding 16 per cent, the financial markets must be anticipating a rate of inflation far above present levels. If the past is any guide, yields prevailing today would be warranted if the rate of inflation, or at least the expected rate of inflation, stood in excess of 13 per cent—not nine per cent. And even if allowance is made for inclusion of a larger-than-normal inflation rate premium in nominal bond yields due to the recent volatility of the inflation statistics, real interest rates of seven per cent in the bond markets still seem excessive. The rate of inflation as measured by the PCE deflator could increase by 50 per cent compared with its most recent 12-month change, and the real rate of interest would still be greater than the average differential that prevailed in the 1970-1980 period.

The sharp upturn in the real cost of borrowing must be treated with caution by business. For in the absence of ongoing high rates of inflation, it can only become more difficult for business to incorporate fully such substantial borrowing costs in their pricing structures. And with debt service payments

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 4/29/81	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	128.513	– 2.868	+ .127
Loans to Depository Inst.	2.278	+ 1.414	– .385
Float	3.087	+ .067	– .522
Total Reserve Bank Credit	144.474	– 1.230	+ 4.492
Treasury Deposits with Federal Reserve Banks	3.536	– .433	– .309
Currency Outside Banks	121.256	– 1.632	+ 9.237
Member Bank Reserves:			
Required	41.004	+ .265	– 4.030
Excess (Deficiency)	–.046	+ .369	– .206
Total Reserves Held	40.958	+ .634	– 4.236
Net Borrowed Reserves	2.149	+ 1.019	– .185
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	101.725	+ 1.134	+27.680
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates†			
M-1A	363.6	– 10.1‡	– 0.3‡
M-1B	428.6	+ 12.5‡	+ 11.3‡
M-2 (March '81)	1,716.5	+ 11.5	+ 10.3
L (January '81)	2,398.2	+ 14.0	+ 10.5

†Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 5/8/81	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	16.45%	15.45%	14.35%
* Federal Agencies	17.19	16.89	16.16
* Project Notes—Taxfree (46% Taxable Equivalent)	12.41	14.07	13.06
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	17.88	17.50	

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	18.00%	Jun.	18.40%
15- 29 days	18.00	Jul.	18.10
30- 59 days	17.50	Aug.	17.95
60- 89 days	16.75	Sep.	17.70
90-179 days	15.25	Oct.	17.25
180-209 days	15.25	Nov.	16.75

‡Industrial Paper—Prime			
30- 89 days	18.13%	†Federal Funds Effective Rate	18.07%
90-120 days	18.00		

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

		Latest Period or End of Period	Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'81	$ 2,827	$ 2,731	$ 2,572
Gross National Product (1972 Dollars)*	1st Q'81	$ 1,509	$ 1,486	$ 1,502
Percent Change, Annual Rate	1st Q'81	6.5%	3.8%	3.1%
Change in Consumer Prices (all urban consumers)*	Mar '81	7.2%	12.0%	15.6%
Change in Producer Prices*	Apr '81n	9.6%	15.6%	9.6%
Civilian Employment (Thousands of Persons)†	Apr '81n	98.976	98,412	97,225
Unemployment as % of Civilian Labor Force†	Apr '81n	7.3%	7.3%	6.9%
Personal Income*	Mar '81	$ 2,335	$ 2,317	$ 2,101
Leading Indicators Composite Index (1967=100)†	Mar '81	137.1	135.2	131.5
Industrial Production Index (1967=100)†	Mar '81	151.7	151.1	152.1
Net Change in Consumer Installment Credit†	Mar '81n	$ 3.11	$ 2.00	$ 0.65
U.S. Merchandise Trade Balance†	Mar '81	$ 0.48	–$ 2.16	–$ 2.68
Plant and Equipment Expenditures*	2nd Q'81	$317.29(a)	$310.59(a)	$294.36
Private Housing Starts (Thousands of Units)*	Mar '81	1,284	1,214	1,040
New Construction Expenditures*	Mar '81	$ 248.0	$ 254.0	$ 237.1
Total Business Inventories†	Feb '81	$ 470.0	$ 465.1	$ 435.2
Total Business Sales†	Feb '81	$ 345.2	$ 345.6	$ 310.2

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

already absorbing a record proportion of nonfinancial business cash flows, rising real borrowing costs certainly do not augur well for the health of corporate balance sheets. One sign of weakness: The soaring number of business bankruptcies. Specifically, during the first four months of 1981, the number of business failures was almost 50 per cent higher than the level of failures recorded during the comparable period of 1980.

. . . And For Profits . . .

Despite a hefty 6.5 per cent advance in the "real" GNP in the first quarter compared with the preceding quarter, and a welcome deceleration in the rate of inflation, corporate profits were not all that healthy. In fact, preliminary estimates by this Bank indicate that pretax profits (adjusted for inventory gains) were about five per cent below their year-earlier record levels. However, this year-to-year comparison masks a wide variance in the performance of specific industries.

For example, the spectacular gains posted by the oil companies at the beginning of last year boosted overall pretax profits by $31 billion, at a seasonally adjusted annual rate. Since then, these gains have faded substantially and during the first quarter of 1981 were about 40 per cent lower than year-ago levels. Consequently, if oil industry earnings were excluded from overall profits, the five per cent year-over-year decline would turn to a very slight

Short Term Paper Outstanding
(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (4/22/81)	113,056	+ 1,398	+17,809
New York City (4/22/81)	28,301	+ 107	+ 6,611
Commercial Paper (4/22/81)	137,741	+ 2,612	+14,748

Bank Loans
(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/22/81)	172,365	+ 1,275	+11,174
New York City (4/22/81)	50,642	+ 518	+ 3,612

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/22/81)	427,481	– 508	+27,791
New York City (4/22/81)	100,583	– 1,042	+10,505

Financial Markets

	Friday 5/8/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	17.30%	+ 1.91	+ 8.07
180-Day Bills†	16.95	+ 1.74	+ 7.56
Longest Bills†	16.10	+ 1.14	+ 6.59
Recent Issues:			
14$\frac{1}{2}$s 4/30/83 (When Issued)	15.66	NA	
13$\frac{3}{8}$s 3/31/85	15.45	+ 1.06	
14$\frac{1}{2}$s 5/15/91 (When Issued)	14.20	NA	
13$\frac{7}{8}$s 5/15/11 (When Issued)	13.75	NA	
Municipals:			
Bond Buyer–20 Bond Index* (5/7/81)	10.90%	– .04	+ 3.79
Blue List Total ($ Million)	$ 721	– $ 89	+ $ 9
30-Day Visible Supply ($ Million)	$1,928	– $508	– $ 281
Total	$2,649	– $597	– $ 272
Corporates:			
Moody's Aa Composite (5/7/81)	15.13%	+ .33	+ 3.38
Money Mgr.–30-Day Supply ($ Million)	$6,528	– $ 82	+ $4,549
Stocks:			
Dow-Jones Averages:			
Industrials	976.40	– 19.19	+ 170.60
Transportation	418.40	– 7.46	+ 168.74
Utilities	105.56	+ .04	– 2.86
65 Stocks	377.71	– 5.53	+ 85.76
Standard and Poor's 500 Stocks	131.58	– 1.14	+ 26.86
N.Y.S.E. Composite Index	76.13	– .62	+ 16.34
N.Y.S.E. Avg. Daily Vol. for Week (000's)	44,254	– 7,632	+ 6,934

* 46% Taxable equivalent 20.19%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 5/8/81	Week Ago
Overnight	18.25%	18.00%
1 month	19.38	17.50
3 month	19.63	17.50
6 month	18.88	17.38
1 year	17.75	17.75
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	14.40%	14.30%
Long Term (7 to 15 yrs.)	14.50	14.40

FOREIGN EXCHANGE SPOT RATES

New York Opening (5/8/81)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02723	36.72
Canada	.8344	1.1985
Denmark	.1409	7.0950
France	.1869	5.3500
Germany	.4439	2.2530
Italy	.0008897	1124.00
Japan	.004595	217.65
Mexico	.04161	24.03
Netherlands	.3998	2.5010
Switzerland	.4874	2.0515
U.K.	2.1135	.4731

advance. Importantly, the petroleum and coal industry accounted for more than 12 per cent of total corporate profits in 1980—virtually double the 6.3 per cent share just two years before.

Benefiting from the partial decontrol of domestic crude oil prices as well as the sharp rise in world prices, oil companies' earnings rose rapidly during the first half of 1980. During the latter half of the year and continuing into 1981, the gains slowed significantly especially in the marketing and refining end. Despite the complete decontrol of domestic oil prices in January, declining demand in response to rising prices and the increasing bite of the "windfall" profits tax reduced profitability and, in some cases, resulted in outright losses.

At the other side of the profits spectrum are the nation's thrift institutions. They have been confronted with an ever-more volatile deposit base—as other market instruments such as money market funds have become more attractive. Those funds that the thrifts have been able to obtain have become more expensive, as depositors have shifted their accounts from the traditional passbook accounts into high-yielding six-month money market certificates and 2-1/2 year, small-saver certificates. The demand for mortgage loans remained sluggish primarily due to the weakness in the housing sector. The high costs of financing a home—reflecting high mortgage interest rates and lofty home purchase prices—have discouraged many potential buyers and thus dampened the demand for mortgages.

Despite the temporary rebate-induced jump in unit sales, domestic automobile manufacturers again reported dismal earnings. Two of the Big Three producers recorded significant losses. Production recovered slightly during February and March, but remained 11 per cent below the weak, year-earlier level. Furthermore, as a result of the ongoing slump in the industry, its suppliers continue to be adversely affected. The auto accessories industry has now experienced two years of weak profits growth with net income falling by 22 per cent compared with a year ago.

The nonferrous metals industry in general and copper producers in particular registered a sharp reversal in profit performance—from extremely favorable income comparisons a year ago to negative currently—hurt by sharply lower commodity prices and slackening demand. Copper prices skyrocketed in early 1980 due to increased speculation in non-precious metals and stepped-up demand in anticipation of the industry-wide strike against producers. However, since then, speculation subsided and the ongoing slump in the auto industry and renewed weakness in new housing construction—the two largest consumers of copper—reduced demand significantly and the price dropped by almost 45 per cent from last spring's peak.

. . . But Does Bolster The Dollar

One of the important effects of the recent rise in U.S. interest rates is the upsurge in the value of the dollar against other major currencies. The recent interest rate spiral has stimulated a tidal wave of speculative funds from abroad as investors rush to lock in higher rates of return in the United States. The demand for dollars has driven the U.S. currency to a ten-year high against the Franch franc, a 30-month high against the German mark and a record high against the Italian lira—1,130 lire to the dollar at the opening of the New York market on May 5.

Since the beginning of 1980, the exchange rate of the dollar has been remarkably responsive to changes in short-term interest rates in the U.S. and in the Eurodollar markets. Recently, as the rate of inflation in the U.S. has begun to slow and, consequently, as real interest rates have risen, the dollar has moved ahead with only minor interruptions. Even if short-term interest rates decline in the near future, the dollar is expected to remain strong. This strength stems not only from economic fundamentals, but from psychological factors as well. Expectations are that the Fed will continue its tight monetary policies keeping interest rates high. In addition, the rate of inflation should continue to decline. Improving trade statistics so far this year encourage the expectation of a current account surplus for 1981. At the same time, other major trading countries that are struggling with low real growth rates or outright recession are reluctant to raise their interest rates to compete for funds with the U.S. (and consequently to strengthen their currencies). Such psychological factors as political uncertainties in Eastern Europe and the Middle East as well as generally favorable foreign opinion of the Reagan economic program add less tangible but, nevertheless, important strength to the outlook for the dollar.

A very strong currency is, however, a mixed blessing. For the United States it means cheaper imports and higher profits on exports denominated in dollars. In the longer term it means that our exports are less price competitive. To other countries, a strong dollar means more expensive imports, particularly oil, and adds to inflationary pressures. These effects are especially damaging to the less developed non-oil exporting countries which pay for many of their essential imports in dollars (although their exports are usually denominated in dollars, too). In the longer term, the countries whose currencies have been effectively devalued by a rising dollar will find that their exports have become more price-competitive. It is this mechanism which eventually will help to establish a new equilibrium between currencies and, hopefully, a period of exchange rate stability.

5/20/81

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The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, MAY 18, 1981

VOLUME XVIII, NUMBER 20

Consumer Spending Is Stronger . . .

Although retail sales declined in April for the first time in almost a year, consumer spending is probably stronger than the numbers indicate. For one thing, the April figure is an advance estimate by the Department of Commerce based on the early reporting of a small sample of the final survey. This will be followed by at least two revisions, with the final outcome probably differing not only in magnitude but also possibly in direction. For example, the December, 1980 estimate was revised from a 1.3 per cent decline to a 0.8 per cent gain while the advance estimate of a 0.1 per cent increase for March was raised to 0.4 per cent.

The one per cent drop in the nation's retail sales in April, month-over-month, was caused by sagging auto sales. When these are excluded, overall sales rose by nine-tenths of one per cent, which represents a greater gain than during the month before. Sales of nondurable goods—those items which have a useful life of less than three years—increased by one per cent, led by a 1.3 per cent gain at food stores, 1.4 per cent at gasoline stations and 1.6 per cent at apparel and accessory stores. However, these gains were more than offset by the sharp decline in sales of durable goods—those products with a useful life of more than three years. Sales of hard goods dropped by more than five per cent, primarily as a result of the steep fall in motor vehicle sales.

The end of manufacturers' rebates on new car purchases resulted in more than a 25 per cent drop in unit sales in April, compared with the previous month, as sales slumped to a seasonally adjusted 5.8 million unit annual rate. This weakness continued into May; car sales were at a 5.7 million unit clip during the first ten-day selling period. Similarly, because of the earlier slump in housing starts, sales of building materials, hardware and garden supplies declined by almost one per cent.

. . . Than The Numbers Suggest

Consumer optimism over future business and employment prospects increased again in April. The monthly Consumer Confidence Index reported by the Conference Board jumped by 3.4 percentage points in April on top of a sizable ten-point gain in March. The Consumer Sentiment Index compiled by the University of Michigan posted a 5.9 percentage point increase—the largest rise since last September.

Partially as a result of their cheerier outlook, consumers bought $3.11 billion more on credit in March than they repaid on old debts. This was the largest growth in outstanding consumer credit in 18 months. Automobile credit outstanding increased by 72 per cent and was responsible for more than half of the overall advance, but all other categories posted gains as well. Revolving credit, which includes credit card purchases at retailers, gasoline companies and credit cards and check credit at commercial banks rose by a seasonally adjusted $587 million in March, up from $491 million in February. Credit owed for mobile homes increased by $88 million after contracting by $47 million the month before. However, because automobile sales declined since March, this hefty increase in consumer credit outstanding did not likely repeat in April.

Although the willingness by consumers to incur greater levels of debt has been growing, their ability to spend has not been impaired. In fact, people may well have additional purchasing power which traditional analysis does not reveal. For example, due to the sharp rise in existing home prices, many homeowners have realized substantial gains in equity on their homes in recent years which, either by selling these homes or by assuming second mortgages, can result in substantial increases in household liquidity.

In addition, the ever-increasing number of two-income households has reduced the risk associated with carrying high levels of debt since it is unlikely that both spouses will lose their jobs at the same time. The percentage of two-income families grew from 45 per cent of all married couples to 46.6 per cent between 1968 and 1975—then surged to 56.8 per cent by yearend 1980.

Interest Rates . . .

Both short- and long-term interest rates continue to spiral upward. Reflecting the negative impact of

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350 Park Avenue, New York, NY 10022

rapid money supply growth and ongoing Federal Reserve efforts to slow it down, short-term interest rates increased by an average of 300 to 375 basis points during the month ending mid-May. Bond yields also moved sharply higher, as top-quality corporate bond interest rates increased as much as 75 basis points during the period. Yields on long-term governments, Federal agencies and municipal bonds also moved substantially higher.

But as a result of the recent $3.6 billion drop in M-1B during the statement week ending April 29 and the relatively moderate advance of the producer price index in April, the worst of the latest interest rate bulge may be behind us. Although the growth of M-1B, which has expanded at a seasonally adjusted 20.8 per cent annual rate over the month, is still far in excess of the Federal Reserve's annual target ranges, it should begin decelerating as the pace of economic activity fades and the rate of inflation, which is now expanding at single-digit annual rates, slows further.

. . . May Be About Ready To Peak

Although these developments would result in at least an easing of upward interest rate pressures, there are some near-term hurdles ahead which must

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 5/6/81	$ Change Since Week Ago	Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	129.393	+ .880	+ 1.866
Loans to Depository Inst.	2.471	+ .193	+ 1.140
Float	2.647	– .597	– 1.451
Total Reserve Bank Credit	145.148	+ .518	+ 6.645
Treasury Deposits with Federal Reserve Banks	4.175	+ .639	+ 1.733
Currency Outside Banks	121.115	– .146	+ 8.613
Member Bank Reserves:			
Required	41.089	+ .085	– 3.113
Excess (Deficiency)	.475	+ .370	+ .144
Total Reserves Held	41.564	+ .455	– 2.969
Net Borrowed Reserves	1.798	– .200	+ .953
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	100.425	– 1.300	+27.792

Monetary Aggregates†		% Change Since Three Months Ago*	Year Ago
M-1A	366.8	– 6.2‡	– 0.1‡
M-1B	430.9	+ 13.1‡	+ 11.5‡
M-2 (March '81)	1,713.8	+ 10.8	+ 10.1
L (February '81)	2,421.2	+ 12.7	+ 10.4

†Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 5/15/81	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	16.40%	15.40%	14.40%
* Federal Agencies	16.15	15.80	15.85
* Project Notes—Taxfree (46% Taxable Equivalent)	12.59	14.63	13.15
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	18.00	17.50	

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	18.00%	Jun.	18.30%
15- 29 days	18.25	Jul.	18.20
30- 59 days	17.75	Aug.	18.00
60- 89 days	16.75	Sep.	17.70
90-179 days	15.63	Oct.	17.30
180-270 days	15.00	Nov.	16.50

‡Industrial Paper—Prime		†Federal Funds	
30- 89 days	18.38%	Effective Rate	18.50%
90-120 days	18.13		

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'81	$ 2,827	$ 2,731	$ 2,572
Gross National Product (1972 Dollars)*	1st Q'81	$ 1,509	$ 1,486	$ 1,502
Percent Change, Annual Rate	1st Q'81	6.5%	3.8%	3.1%
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Unemployment as % of Civilian Labor Force†	Apr '81	7.3%	7.3%	6.9%
Personal Income*	Mar '81	$ 2,335	$ 2,317	$ 2,101
Leading Indicators Composite Index (1967=100)†	Mar '81	137.1	135.2	131.5
Industrial Production index (1967=100)†	Apr '81n	152.8	152.2	148.3
Net Change in Consumer Installment Credit†	Mar '81	$ 3.11	$ 2.00	$ 0.65
U.S. Merchandise Trade Balance†	Mar '81	$ 0.48	–$ 2.16	–$ 2.68
Plant and Equipment Expenditures*	2nd Q'81	$317.29(a)	$310.59(a)	$294.36
Private Housing Starts (Thousands of Units)*	Mar '81	1,284	1,214	1,040
New Construction Expenditures*	Mar '81	$ 248.0	$ 254.0	$ 237.1
Total Business Inventories†	Mar '81n	471.8	470.8	443.0
Total Business Sales†	Mar '81n	345.9	346.4	310.3

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

be overcome before the trend in interest rates reverses itself and begins a downward descent. Among the more important is the surge in the money supply in early May reflecting the distribution of Social Security payments and other Federal government entitlements—seasonal adjustment notwithstanding. Then there is the fate of the Administration's personal income tax cut proposals in Congress and a sharp bulge in commercial and industrial loans outstanding during the past month. Until these factors are digested by the markets, interest rates will not move down.

When interest rates do decline, they may not go straight down. The declines will reflect a softening in the pace of economic activity, a continued deceleration in both the rates of inflation and money supply growth and a moderation of short-term business credit demands. On the other hand, the economy could remain strong, the rate of inflation might accelerate or a highly stimulative personal income tax package may emerge from Congress. Any or all of these developments would tend to break the descent. Thus it would appear that the interest rate decline will occur in fits and starts and will not become significant until later this year or in 1982.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (4/29/81)	114,178	+ 1,122	+18,500
New York City (4/29/81)	28,308	+ 7	+ 6,503
Commercial Paper (4/29/81)	137,435	− 306	+14,984

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/29/81)	174,661	+ 2,296	+13,412
New York City (4/29/81)	51,431	+ 789	+ 4,287

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/29/81)	430,643	+ 3,162	+30,073
New York City (4/29/81)	101,936	+ 1,353	+11,392

Financial Markets

	Friday 5/15/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	16.55%	− .75	+ 8.17
180-Day Bills†	15.45	− 1.50	+ 6.67
Longest Bills†	14.45	− 1.65	+ 5.23
Recent Issues:			
14½s 4/30/83	14.95	− .71	
13⅜s 3/31/85	14.02	− 1.43	
14½s 5/15/91	14.22	+ .02	
13⅞s 5/15/11	13.54	− .21	
Municipals:			
Bond Buyer—20 Bond Index* (5/14/81)	10.83%	− .07	+ 3.39
Blue List Total ($ Million)	$ 760	+ $ 39	− $ 143
30-Day Visible Supply ($ Million)	$1,873	− $ 55	− $ 455
Total	$2,633	− $ 16	− $ 598
Corporates:			
Moody's Aa Composite (5/14/81)	14.89%	− .24	+ 3.07
Money Mgr.—30-Day Supply ($ Million)	$5,867	− $661	+ $3,605
Stocks:			
Dow-Jones Averages:			
Industrials	985.95	+ 9.55	+ 159.41
Transportation	425.80	+ 7.40	+ 167.04
Utilities	108.91	+ 3.35	− .26
65 Stocks	383.57	+ 5.86	+ 84.24
Standard and Poor's 500 Stocks	131.96	+ .30	+ 24.61
N.Y.S.E. Composite Index	76.54	+ .41	+ 15.31
N.Y.S.E. Avg. Daily Vol. for Week (000's)	41,844	− 2,410	+ 6,348

* 46% Taxable equivalent 20.06%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 5/15/81	Week Ago
Overnight	18.50%	18.00%
1 month	19.25	19.38
3 month	19.56	19.63
6 month	18.69	18.88
1 year	17.56	17.75
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	14.75%	14.30%
Long Term (7 to 15 yrs.)	14.38	14.40

FOREIGN EXCHANGE SPOT RATES

New York Opening (5/15/81)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02674	37.40
Canada	.8329	1.2006
Denmark	.1385	7.2200
France	.1808	5.5300
Germany	.4354	2.2970
Italy	.0008749	1143.00
Japan	.004480	223.20
Mexico	.04156	24.06
Netherlands	.3917	2.5530
Switzerland	.4831	2.0700
U.K.	2.0753	.4819

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The Manufacturers Hanover Financial Digest

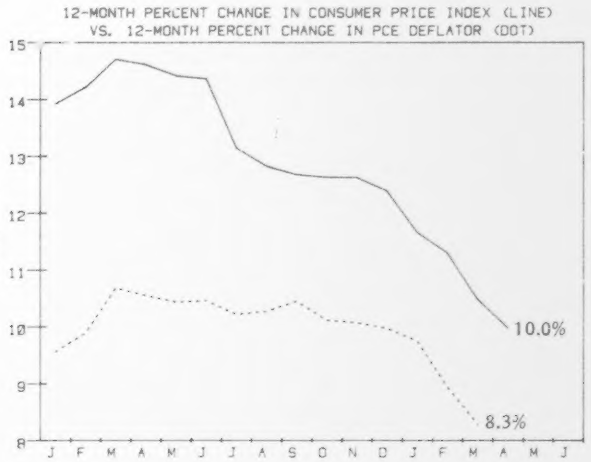
Weekly Commentary,
Selected Financial Data,
and Business Indicators

FRIDAY, MAY 22, 1981

VOLUME XVIII, NUMBER 21

Inflation's Grip Is Loosening . . .

The upward spiral of the inflation rate appears to be over—even before the Administration could implement its planned inflation-fighting program of budget cuts. In the past six months, the widely-followed consumer price index (CPI) has climbed by an average annual rate of 9.6 per cent. When year-to-year comparisons are made, the improvement is even more striking (see chart). The 12-month increase in the CPI remains in double digits—but barely. What is more, there has been a progressive improvement over the past year. And the personal consumption expenditures (PCE) deflator has risen by only 8.3 per cent in the last 12 months.



The upward movement of prices of many components which previously contributed to the sharp rise has slackened, with some items even declining. Importantly, not only do such cyclical factors as food, energy and housing show improvement, but the underlying rate of inflation—the long-term relationship between wages and productivity—seems to be slowly descending.

Food prices, which rose sharply during the six-month period ending in December, 1980, have so far this year had a moderating influence on the CPI, mainly as a result of plentiful meat supplies. During the first quarter, meat prices declined by more than 25 per cent at an annual rate, in contrast to the 28 per cent annual rate of rise registered during the second half of last year. This has occurred because of excess production of beef and pork.

. . . But Food Prices May Rise Later . . .

However, because of high production costs, many farmers have been losing money. In an attempt to improve their profit margins, they have been cutting inventories and slaughtering more animals. In effect, this action has increased the supplies of meat in the marketplace, which, when coupled with declining beef consumption, has exerted significant downward pressures on prices. But there are signs that cattle inventories are near bottom and beef supplies will soon be curtailed. Similarly, pork supplies are tightening from their record year-ago levels. The March inventory of hogs and pigs showed that eight per cent fewer animals are available to be marketed this spring and summer than one year ago.

Declining red meat production will be partially offset by expanding poultry output. Department of Agriculture reports indicate an expansion in broiler output of three per cent during the second quarter of this year from year-earlier levels, and possibly a five per cent rise during the second half. Although increased substitution of poultry for beef and pork is likely to dampen price rises of red meat during the rest of this year, it may at the same time, put some upward pressure on the price of poultry.

The rise in energy costs has decelerated from its lofty pace posted early this year. The last round of OPEC-mandated price increases and the domestic deregulation of crude oil prices have resulted in an average four per cent monthly price increase during January and February of this year. However, the continued downward trend in U.S. consumption and consumer resistance to rising costs cut the price rise to two per cent in March and 0.1 per cent in April. Further pressure on prices of gasoline and other refined products prices is expected. U.S. stocks of crude oil were five per cent above year-ago high levels in April and remain substantially above normal. In light of the prevailing global oversupply

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of crude oil, several OPEC producers have been forced to lower their export quotes. Even many domestic oil companies have already slashed their wholesale prices in response to the existing excess stocks of oil.

Similarly, the housing component has tempered the rise in the CPI in recent months. The cost of homeownership has registered smaller increases since the beginning of the year, mostly as a result of a dip in home prices, which partially offset the recent rise in mortgage interest costs. However, if interest rates ease from their current high levels, there may be an even more favorable impact on the overall rate of inflation from this source.

. . . While Wage Costs Decelerate

Most importantly, labor costs are showing substantial signs of abatement. Wage increases reached in collective bargaining settlements were smaller during the first quarter of 1981 than during 1980. Provisions for first-year wage increases were nine per cent, down from 9.5 per cent last year. Apparently, this has occurred not only because of expectations of lower inflation by employees, but also because of closer cooperation of labor with management, especially in such ailing industries as automobiles and steel where lower wage settlements or even pay cuts were needed to keep plants in operation (Financial Digest—March 13, 1981).

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 5/13/81	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	126.911	– 2.402	– 1.919
Loans to Depository Inst.	1.734	– .737	+ .714
Float	4.202	+ 1.634	+ .977
Total Reserve Bank Credit	143.466	– 1.603	+ 4.830
Treasury Deposits with Federal Reserve Banks	3.299	– .876	+ .492
Currency Outside Banks	121.788	+ .673	+ 8.485
Member Bank Reserves:			
Required	39.928	– 1.161	– 3.525
Excess (Deficiency)	.005	– .391	– .035
Total Reserves Held	39.933	– 1.552	– 3.560
Net Borrowed Reserves	1.503	– .374	+ .571
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	100.788	+ .363	+28.424

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M-1A	365.0	– 3.6‡	– 0.2‡
M-1B	428.8	+ 12.9‡	+ 11.5‡
M-2 (April '81)	1,733.8	+ 12.4	+ 11.8
L (February '81)	2,421.2	+ 13.3	+ 10.4

†Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 5/22/81	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	16.70%	15.55%	14.40%
* Federal Agencies	17.20	16.55	16.45
* Project Notes—Taxfree (46% Taxable Equivalent)	11.85	13.89	13.33
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	17.75	16.50	

‡Finance Company Paper—Prime	
5- 14 days	18.00%
15- 29 days	18.25
30- 59 days	17.75
60- 89 days	16.00
90-119 days	15.38
120-239 days	15.00
240-270 days	12.00

‡* Bankers' Acceptances	
Jun.	18.50%
Jul.	18.30
Aug.	18.20
Sep.	17.90
Oct.	17.40
Nov.	16.90

‡Industrial Paper—Prime	
30- 89 days	18.38%
90-120 days	18.25

†Federal Funds Effective Rate 19.40%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'81	$ 2,854	$ 2,731	$ 2,572
Gross National Product (1972 Dollars)*	1st Q'81	$ 1,516	$ 1,486	$ 1,502
Percent Change, Annual Rate	1st Q'81	8.4%	3.8%	3.1%
Change in Consumer Prices (all urban consumers)*	Apr '81n	4.8%	7.2%	10.8%
Change in Producer Prices*	Apr '81	9.6%	15.6%	9.6%
Civilian Employment (Thousands of Persons)†	Apr '81	98,976	98,412	97,225
Unemployment as % of Civilian Labor Force†	Apr '81	7.3%	7.3%	6.9%
Personal Income*	Apr '81n	$ 2,351	$ 2,338	$ 2,102
Leading Indicators Composite Index (1967=100)†	Mar '81	137.1	135.2	131.5
Industrial Production Index (1967=100)†	Apr '81	152.8	152.2	148.3
Net Change in Consumer Installment Credit†	Mar '81	$ 3.11	$ 2.00	$ 0.65
U.S. Merchandise Trade Balance†	Mar '81	$ 0.48	–$ 2.16	–$ 2.68
Plant and Equipment Expenditures*	2nd Q'81	$317.29(a)	$310.59(a)	$294.36
Private Housing Starts (Thousands of Units)*	Apr '81n	1,343	1,289	1,044
New Construction Expenditures*	Mar '81	$ 248.0	$ 254.0	$ 237.1
Total Business Inventories†	Mar '81	$ 471.8	$ 470.8	$ 443.0
Total Business Sales†	Mar '81	$ 345.9	$ 346.4	$ 310.3

* Seasonally adjusted annual rate. † Seasonally adjusted. n - Newly reported figure. a - Anticipated.

While the rise in labor costs during the first three months of the year was still large because of a boost from increased Social Security payments, total compensation was partially offset by a 3.6 per cent rebound in productivity—the largest quarterly gain since late 1977. The improvement in productivity evidently continued through April, since manufacturing output expanded by 0.6 per cent compared with a 0.5 per cent rise in the total number of hours worked. And the operating rate rose to a very efficient 80.3 per cent of capacity. If productivity continues to pick up, the underlying rate of inflation will subside further.

To be sure, there are some upside risks in the inflation outlook. The weather could turn bad, oil production could suddenly drop or inflation psychology could be fueled by rising defense spending. However, the scales appear to be tipped in favor of further reductions in the rate of inflation—albeit at a slower pace.

A Slower Rate of Growth

Although the economy is not likely to repeat the first quarter's hefty 8.4 per cent annual rate of rise in the real GNP, it is not expected to decline, either. History shows that such a strong gain in the real GNP is not likely to be followed by a recession. Supporting this view is the latest survey by the

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since	
		Week Ago	Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (5/6/81)	116,131	+ 1,931	+20,578
New York City (5/6/81)	28,666	+ 358	+ 6,510
Commercial Paper (5/6/81)	139,607	+ 2,172	+13,304

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (5/6/81)	176,949	+ 2,424	+16,829
New York City (5/6/81)	52,120	+ 689	+ 5,326

Total Loans Gross Adjusted

	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (5/6/81)	435,027	+ 4,502	+37,377
New York City (5/6/81)	103,630	+ 1,677	+14,656

Financial Markets

	Friday 5/22/81	Change Since	
		Week Ago	Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	16.64%	+ .05	+ 8.36
180-Day Bills†	15.50	+ .05	+ 6.78
Longest Bills†	14.36	+ .09	+ 5.37
Recent Issues:			
14½s 4/30/83	15.56	+ .61	
13⅜s 3/31/85	15.32	+ 1.30	
14½s 5/15/91	14.94	+ .72	
13⅞s 5/15/11	13.36	– .18	
Municipals:			
Bond Buyer–20 Bond Index* (5/21/81)	10.73%	– .10	+ 3.01
Blue List Total ($ Million)	$ 838	+ $ 78	+ $ 12
30-Day Visible Supply ($ Million)	$1,683	– $190	– $ 879
Total	$2,521	– $112	– $ 867
Corporates:			
Moody's Aa Composite (5/21/81)	14.91%	+ .02	+ 2.95
Money Mgr.–30-Day Supply ($ Million)	$5,373	– $494	+ $2,892
Stocks:			
Dow-Jones Averages:			
Industrials	971.72	– 14.23	+ 117.54
Transportation	426.53	+ .73	+ 161.19
Utilities	106.91	– 2.00	– 2.22
65 Stocks	379.87	– 3.70	+ 73.02
Standard and Poor's 500 Stocks	131.33	+ .63	+ 20.71
N.Y.S.E. Composite Index	76.26	– .28	+ 13.21
N.Y.S.E. Avg. Daily Vol. for Week (000's)	42,986	+ 1,142	+ 6,054

* 46% Taxable equivalent 19.87%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 5/22/81	Week Ago
Overnight	19.63%	18.50%
1 month	19.75	19.25
3 month	19.75	19.56
6 month	18.75	18.69
1 year	17.38	17.56
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	15.00%	14.75%
Long Term (7 to 15 yrs.)	14.75	14.38

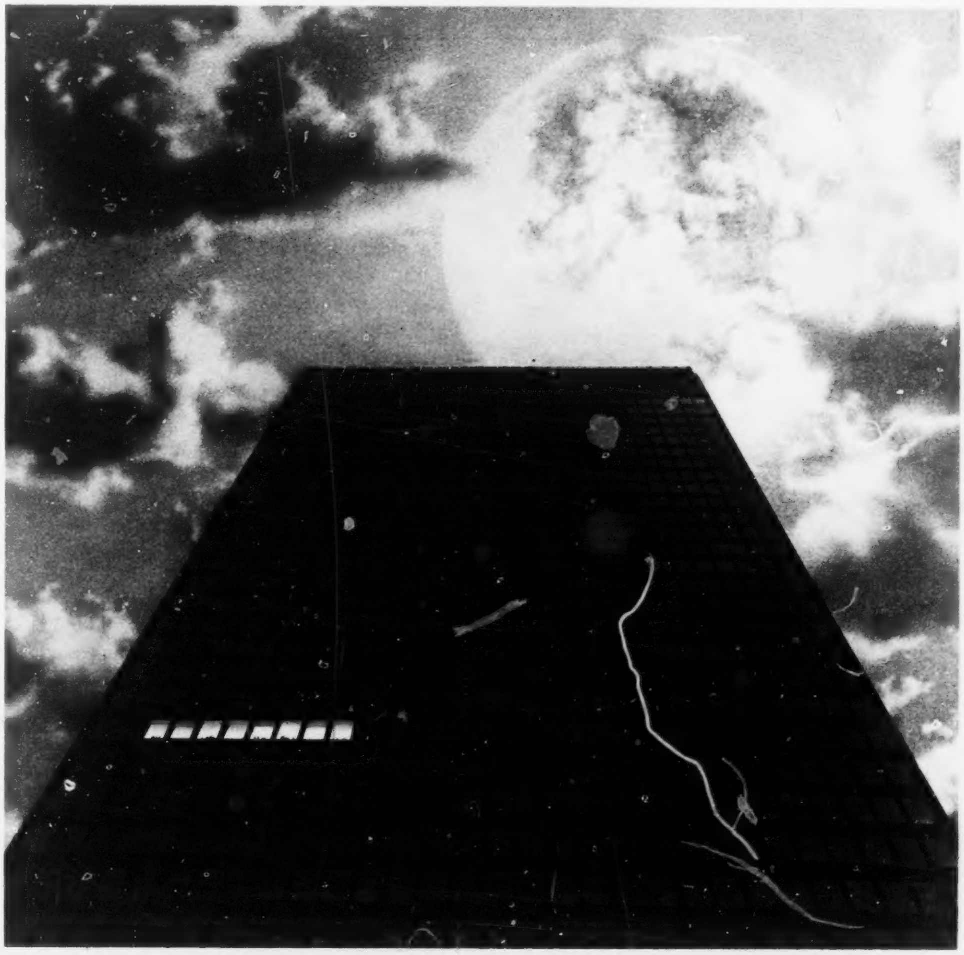
FOREIGN EXCHANGE SPOT RATES

New York Opening (5/22/81)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02644	37.82
Canada	.8324	1.2013
Denmark	.1373	7.2825
France	.1786	5.5980
Germany	.4307	2.3220
Italy	.000871[illegible]	1148.00
Japan	.004488	222.80
Mexico	.04146	24.12
Netherlands	.3885	2.5740
Switzerland	.4808	2.0800
U.K.	2.0580	.4859

National Association of Purchasing Management Inc., which found that the nation's purchasing managers are optimistic about a gradual improvement in the economy for the rest of the year.

Both production and new orders increased slightly in May after a substantial rise in April. Then, three times as many concerns increased production compared with the previous month than lowered production, while the number reporting higher orders was 6.7 per cent larger than those who received smaller orders. However, the 0.4 per cent decline in durable goods orders in April already shows that growth in the economy during the current quarter will be slower than that registered during the first. H

THE MOONLIGHTING PORTFOLIO.



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6/4/81

The Manufacturers
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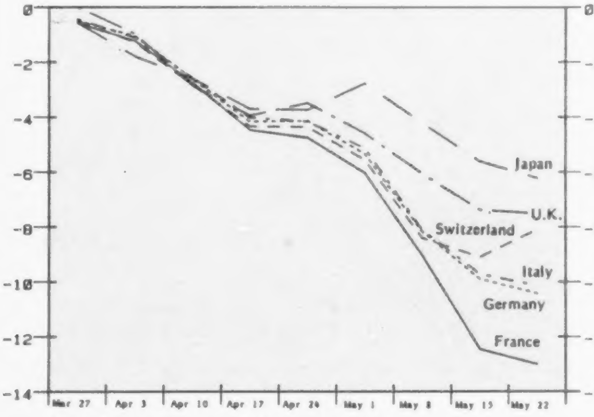
Financial
Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, JUNE 1, 1981
VOLUME XVIII, NUMBER 22

Currency Markets Are Uncertain . . .

The foreign exchange markets continue to be dominated by reactions to the election of Mr. Mitterand to the French presidency and lofty U.S. money market interest rates. These developments have added luster to the dollar at the expense, not only of the currencies of the European Monetary System (EMS) countries, but of other major currencies as well. The EMS currencies are "locked" into a fixed relationship with each other so that a decline in any one of them against the dollar results in a decline in all of them.

VALUE IN U.S. DOLLARS OF CURRENCIES:
% CHANGE FROM MARCH 23, 1981*



*Date of last realignment of EMS central parities.

Only a general agreement of all the members can change the interrelationship of exchange rates. The last such change occurred on March 23 of this year when the Italian lira, under great pressure, was devalued by six per cent against the currencies of the other EMS members. Since that date, the EMS currencies have continued to fall against the dollar (see chart). The lira has declined by 10.6 per cent in the two months since March 23 and the German mark by 10.8 per cent.

The French franc, however, has fallen by 13.4 per cent. There it has been held through massive intervention in the foreign exchange market by the Bank of France and other EMS central banks (principally the Bundesbank) in an obvious effort to keep the EMS from coming apart. Concern about the prospects of French-franc denominated assets has pushed the franc close to the bottom of the permitted area of fluctuation in the system in spite of policy measures taken by the French central bank to bolster the beleaguered currency. The dollar has been the major beneficiary of these concerns, although a rise in the value of the Swiss franc against the dollar in the last two weeks implies that at least one other currency may have benefited as well.

. . . And Weakness Is Widespread . . .

But even currencies outside of the EMS have shown significant depreciation against the resurgent dollar. In the last two months, the pound sterling has fallen by 7.9 per cent, the Swiss franc by 8.6 per cent and the Japanese yen by 6.7 per cent. As U.S. interest rates have risen and investors have moved out of the EMS currencies, the appeal of dollar-denominated financial assets has grown and with it the demand for dollars.

In some cases, the relative decline in these currencies does not reflect a related underlying economic weakness but rather, reactions to high nominal interest rates and declining inflation in the U.S. In the longer term, such economic fundamentals as comparative rates of inflation and real growth will be reflected in exchange rates. When they are, these currencies will improve against the dollar. For example, April's consumer prices in Japan were five per cent above a year ago compared with ten per cent in the U.S., while Japanese GNP growth in 1981 is expected to be close to five per cent compared with 2.5 per cent in the U.S. These prospects bode well for the yen—at least longer-term.

Yet the road to recovery for several currencies, particularly those in the EMS, will be a rough one. First, there are the prospects for interest rates in the United States to continue high for a while longer. The monetary policy of the Federal Reserve points to continued tightness, particularly if a tax cut is enacted—recent improvement in inflation notwithstanding. High interest rates and declining inflation rates are a powerful magnet that is not

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likely to be offset by the actions of the other countries because of low growth or recession in their own economies.

. . . Particularly In The EMS . . .

In France, the policies outlined by Mr. Mitterand during and since his electoral campaign and his appointments so far seem to point in the direction of rapid economic expansion. If confirmed by the upcoming National Assembly elections, employment and growth would receive priority over inflation as France's primary goals. This policy direction would be superimposed on an already high inflation rate—12.5 per cent year-over-year in March—suggesting even higher inflation in the future. When combined with the prospects for nationalization of certain key industries, the period of weakness for the franc may be an extended one.

In terms of the European Economic Community (EEC) in general and the EMS in particular, the downward potential for the franc could result in a number of outcomes, among them: (1) Another readjustment to EMS parities (in effect, a devaluation of the franc) which, after the March 23 realignment, opens up the question of EMS exchange rate stability; or (2) France may leave the EMS, which would reduce it to essentially a DM

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 5/20/81	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	130.307	+ 3.396	− .865
Loans to Depository Inst.	1.975	+ .241	+ 1.137
Float	3.009	− 1.286	− .859
Total Reserve Bank Credit	145.143	+ 1.584	+ 4.527
Treasury Deposits with Federal Reserve Banks	3.119	− .180	+ .099
Currency Outside Banks	123.100	+ 1.322	+ 8.546
Member Bank Reserves:			
Required	40.356	+ .428	− 3.524
Excess (Deficiency)	.169	+ .071	− .114
Total Reserves Held	40.525	+ .499	− 3.638
Net Borrowed Reserves	1.535	− .125	+ 1.020
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	100.062	− .726	+26.419
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates †			
M-1A	363.9	− 2.9‡	− 0.6‡
M-1B	427.4	+ 10.9‡	+ 10.8‡
M-2 (April '81)	1,733.6	+ 12.3	+ 11.8
L (February '81)	2,421.2	+ 12.7	+ 10.4

† Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 5/29/81	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	14.90%	14.00%	13.10%
* Federal Agencies	14.50	15.00	15.10
* Project Notes—Taxfree (46% Taxable Equivalent)	14.72	13.43	13.06
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	17.15	16.25	

‡Finance Company Paper—Prime	
5- 14 days	16.00%
15- 29 days	16.38
30- 59 days	16.25
60- 89 days	16.00
90-119 days	15.00
120-239 days	15.00
240-270 days	12.00

‡* Bankers' Acceptances	
Jun.	16.85%
Jul.	16.70
Aug.	16.30
Sep.	16.10
Oct.	15.50
Nov.	15.00

‡Industrial Paper—Prime	
30- 89 days	16.50%
90-120 days	16.25

†Federal Funds Effective Rate 17.50%

‡Discount basis.

* Subject to availability.

† Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

		Latest Period or End of Period	Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'81	$ 2,854	$ 2,731	$ 2,572
Gross National Product (1972 Dollars)*	1st Q'81	$ 1,516	$ 1,486	$ 1,502
Percent Change, Annual Rate	1st Q'81	8.4%	3.8%	3.1%
Change in Consumer Prices (all urban consumers)*	Apr '81	4.8%	7.2%	10.8%
Change in Producer Prices*	Apr '81	9.6%	15.6%	9.6%
Civilian Employment (Thousands of Persons) †	Apr '81	98,976	98,412	97,225
Unemployment as % of Civilian Labor Force †	Apr '81	7.3%	7.3%	6.9%
Personal Income*	Apr '81	$ 2,351	$ 2,338	$ 2,102
Leading Indicators Composite Index (1967=100) †	Apr '81n	138.3	137.8	126.2
Industrial Production Index (1967=100) †	Apr '81	152.8	152.2	148.3
Net Change in Consumer Installment Credit †	Mar '81	$ 3.11	$ 2.00	$ 0.65
U.S. Merchandise Trade Balance†	Mar '81	$ 0.48	−$ 2.16	−$ 2.68
Plant and Equipment Expenditures*	2nd Q'81	$317.29(a)	$310.59(a)	$294.36
Private Housing Starts (Thousands of Units)*	Apr '81	1,343	1,289	1,044
New Construction Expenditures*	Mar '81	$ 248.0	$ 254.0	$ 237.1
Total Business Inventories†	Mar '81	$ 471.8	$ 470.8	$ 443.0
Total Business Sales †	Mar '81	$ 345.9	$ 346.4	$ 310.3

* Seasonally adjusted annual rate.

† Seasonally adjusted.

n-Newly reported figure.

a-Anticipated.

currency bloc and increase the influence of Germany in the EEC while adding to the already heavy burdens on the Bundesbank in maintaining currency stability. In either event, the prospects for the EMS are for substantial change.

Germany's problems are numerous as well. Although inflation is relatively low (5.5 per cent year-over-year in March), the economy is in recession and is expected to remain so until late 1981. Real GNP will fall by perhaps 1.5 per cent this year. Further, the country's external accounts will also be in red ink for another year, since a current account deficit of over $10 billion is expected. In addition, the Bundesbank has intervened heavily this year in the foreign exchange markets in an attempt to support the DM as well as other troubled EMS currencies. This is the burden which automatically falls on the strongest economy in any fixed exchange rate system just as it did on the United States in the years of the Bretton Woods and the short-lived Smithsonian systems.

The weakness of the Italian lira which required the realignment of central parities on March 23 has continued. Recently, of course, the Italian currency has relinquished center stage to the French franc. The lira's decline has been striking, nonetheless. On

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (5/13/81)	118,043	+ 1,912	+22,214
New York City (5/13/81)	28,908	+ 242	+ 6,381
Commercial Paper (5/13/81)	142,064	+ 2,457	+15,774

Bank Loans

(Millions of Dollars)

Weekly Reporting Large Commercial Banks	Commercial and Industrial Loans: Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/13/81)	175,531	− 1,343	+16,335
New York City (5/13/81)	51,385	− 735	+ 4,486

	Total Loans Gross Adjusted: Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/13/81)	433,312	− 1,604	+37,445
New York City (5/13/81)	102,817	− 813	+13,362

Financial Markets

	Friday 5/29/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	14.99%	− 1.65	+ 7.08
180-Day Bills†	14.00	− 1.50	+ 5.83
Longest Bills†	13.15	− 1.21	+ 4.62
Recent Issues:			
15⅝s 5/31/83 (When Issued)	13.18	NA	
13⅜s 3/31/85	14.00	− 1.32	
14½s 5/15/91	13.42	− 1.52	
13⅞s 5/15/11	13.00	− .36	
Municipals:			
Bond Buyer–20 Bond Index* (5/28/81)	10.64%	− .09	+ 2.91
Blue List Total ($ Million)	$ 844	+ $ 6	− $ 118
30-Day Visible Supply ($ Million)	$1,816	+ $133	− $1,036
Total	$2,660	+ $139	− $1,154
Corporates:			
Moody's Aa Composite (5/28/81)	14.96%	+ .05	+ 3.14
Money Mgr.–30-Day Supply ($ Million)	$6,274	+ $901	+ $3,635
Stocks:			
Dow-Jones Averages:			
Industrials	991.75	+ 20.03	+ 140.90
Transportation	435.79	+ 9.26	+ 166.56
Utilities	107.67	+ .76	− 2.61
65 Stocks	387.14	+ 7.27	+ 79.12
Standard and Poor's 500 Stocks	132.89	+ 1.56	+ 21.65
N.Y.S.E. Composite Index	76.98	+ .72	+ 13.56
N.Y.S.E. Avg. Daily Vol. for Week (000's)	53,213	+10,227	+ 14,140

* 46% Taxable equivalent 19.70%.

† Bond equivalent.

International Rates

	Friday 5/29/81	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	17.50%	19.63%
1 month	17.81	19.75
3 month	17.63	19.75
6 month	16.75	18.75
1 year	16.13	17.38
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	14.80%	15.00%
Long Term (7 to 15 yrs.)	14.55	14.75

FOREIGN EXCHANGE SPOT RATES

New York Opening (5/29/81)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02618	38.20
Canada	.8323	1.2015
Denmark	.1365	7.3270
France	.1807	5.5350
Germany	.4297	2.3270
Italy	.0008650	1156.00
Japan	.004466	223.90
Mexico	.04134	24.19
Netherlands	.3865	2.5870
Switzerland	.4827	2.0715
U.K.	2.0705	.4830

February 2 of this year, the lira stood at close to 1,000 to the dollar; on March 23, it had reached 1,040 and May 22, 1,149—a 10.6 per cent decline in just two months.

In addition to interest rates, rapidly rising prices are a factor in the weakening of the lira. Inflation in Italy is the highest in the EEC, with February's consumer prices 20 per cent above the same month the year before. Export volume has fallen seven per cent below the previous year, and in 1980, the current account deficit probably reached close to $10 billion. Real growth is expected to drop by one per cent in 1981. Further, the resignation of the Italian government will introduce an interregnum while a new government is selected—the 41st since World War II. These difficulties have reawakened concern in some quarters about Italy's economic and political stability. The lira, too, in spite of the wider range in which that currency is allowed to fluctuate within the EMS, may again fall below the new limit.

. . . And The Pound

The pound sterling has declined by almost eight per cent against the dollar since March 23 and about 12 per cent since the beginning of February. The rate of inflation, which had been slowing, picked up to an 18 per cent annual rate in March, while government borrowing has increased as well. The United Kingdom is currently in recession; unemployment is running at a 10.1 per cent rate (2.4 million jobless) and has already become a major political issue.

It would thus appear that a strong dollar is not an ephemeral phenomenon. High real interest rates in the United States will continue to make the dollar attractive while political and economic uncertainties in France and Italy, along with recession in Germany, Italy and the United Kingdom will encourage the flow of funds to safer and more stable havens. Even the currencies of the healthier economies of Switzerland and Japan will feel the powerful effects of these financial flows.

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6/10/81

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The Manufacturers Hanover
Financial Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

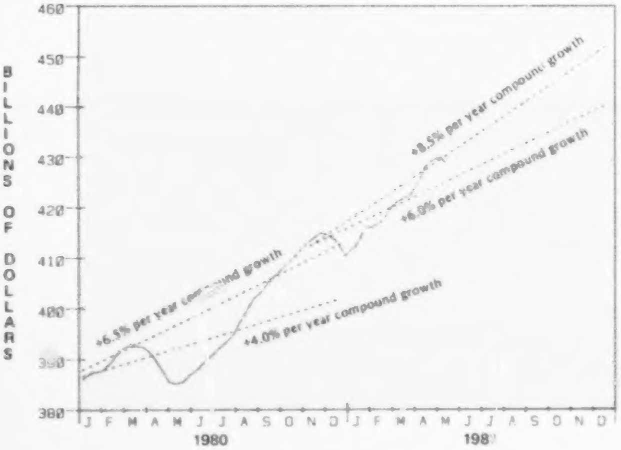
MONDAY, JUNE 8, 1981 VOLUME XVIII, NUMBER 23

The Signals Appear To Indicate . . .

A variety of favorable economic and financial developments has recently heightened speculation that short-term interest rates may be either near, or at their peaks for the current economic cycle. These include an easing of money supply growth and business loan demand at the nation's commercial banks, a spreading weakness in the pace of economic activity and a marked reduction in the rate of inflation. And if the weakening economy and lower rates of inflation should dampen monetary growth even further in the weeks ahead, good-sized rallies in the money, bond and equities markets are possible.

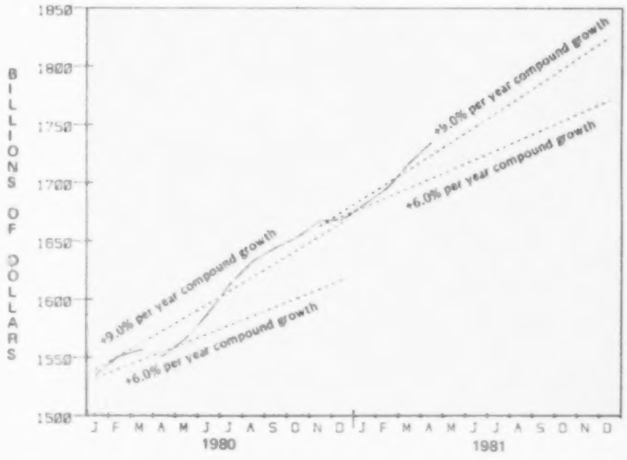
Perhaps the most important development in recent weeks has been the substantial slowing of money supply growth. During the month ending May 20, for example, M-1B expanded at a modest 1.1 per cent seasonally adjusted annual rate, a significant deceleration, compared with the more than 20 per cent annual rate of rise posted during the month ending April 29. As a result, and as shown in the chart below, M-1B is now well within its 1981 target boundaries.

MONEY SUPPLY, M-1B
FOUR-WEEK MOVING AVERAGE



Even with the growth of the money supply turning sluggish and expectations that it will remain that way as the economy softens, there has been little indication that the Federal Reserve may be about to relax its tight grip on the monetary reins. Indeed, with the central bank moving aggressively to drain reserves from the banking system early last week while the Federal funds rate hovered near the upper end of its presumed 15 to 20 per cent target band, the Fed clearly reemphasized its determination to keep money supply growth throttled back.

MONEY SUPPLY, M-2



Since M-1B growth is now expanding within its target ranges, the focus of monetary restraint has to be the curbing of the growth of the broader money measure, M-2. Federal Reserve spokesmen have recently begun advising bankers and other money market participants to pay more attention to M-2. However, M-2 is rising rapidly so far this year (see chart above). But with funds now flowing directly into such money market instruments as Treasury bills and stocks, and away from such components of M-2 as NOW accounts and money market funds, M-2 growth should soon decelerate, returning this aggregate to its target band by early this summer.

Until this slowing is visible, there is little reason to expect the adoption of a more accommodative monetary policy. This was not the conclusion that apparently was reached by those financial market

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participants who remain riveted to the fluctuations in M-1B. Anticipation of less monetary restraint due to the curtailment of M-1B growth quickly turned to disappointment, and an expected strong money market rally failed to materialize in early June.

. . . That Short-Term Interest Rates . . .

As long as monetary policy remains restrictive, any interest rate declines will have to come from demand-side, rather than supply-side, factors. Thus, the pace of economic activity and the rate of inflation—and their corresponding impact on the demand for money and credit—become key elements in the financial market outlook. In the economy, the evidence continues to mount that the expansion of the "real" GNP in the second quarter will be substantially less than the torrid, 8.4 per cent seasonally adjusted annual rate of rise posted in the first quarter—if there is any growth at all. Among the more recent indicators of a fading of the growth momentum was the modest 0.4 per cent month-over-month increase in the index of leading economic indicators in April, following a sharp 1.8 per cent gain the month before; the continuing sluggish pace of automobile sales since the elimination of the rebates; the steep plunge in new home sales in April and an easing of new factory orders, for both

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 5/27/81	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	128.832	– 1.475	– 1.107
Loans to Depository Inst.	2.923	+ .948	+ 1.799
Float	2.497	– .547	– 1.009
Total Reserve Bank Credit	144.121	– 1.057	+ 4.523
Treasury Deposits with Federal Reserve Banks	2.830	– .289	+ .216
Currency Outside Banks	122.621	– .485	+ 8.359
Member Bank Reserves:			
Required	39.810	– .546	– 3.804
Excess (Deficiency)	.583	+ .379	+ .597
Total Reserves Held	40.393	– .167	– 3.207
Net Borrowed Reserves	2.031	+ .531	+ .922
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	97.516	– 2.546	+22.639
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates †			
M-1A	363.5	– 1.9‡	– 0.8‡
M-1B	427.4	+ 9.8‡	+ 10.6‡
M-2 (April '81)	1,734.9	+ 12.7	+ 11.8
L (February '81)	2,421.5	+ 12.7	+ 10.4

† Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 6/5/81	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	15.55%	14.20%	13.30%
* Federal Agencies	15.10	15.40	15.30
* Project Notes—Taxfree (46% Taxable Equivalent)	12.96	13.89	13.15
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	17.75	16.75	

‡ Finance Company Paper—Prime	
5- 14 days	18.25%
15- 29 days	18.38
30- 59 days	17.75
60- 89 days	16.00
90-179 days	15.00
180-239 days	15.00
240-270 days	12.00

‡* Bankers' Acceptances	
Jul.	18.50%
Aug.	17.20
Sep.	16.60
Oct.	16.40
Nov.	15.40
Dec.	15.10

‡ Industrial Paper—Prime	
30- 89 days	18.50%
90-120 days	17.00

† Federal Funds Effective Rate 20.00%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'81	$ 2,854	$ 2,731	$ 2,572
Gross National Product (1972 Dollars)*	1st Q'81	$ 1,516	$ 1,486	$ 1,502
Percent Change, Annual Rate	1st Q'81	8.4%	3.8%	3.1%
Change in Consumer Prices (all urban consumers)*	Apr '81	4.8%	7.2%	10.8%
Change in Producer Prices*	May '81n	4.8%	9.6%	6.0%
Civilian Employment (Thousands of Persons) †	May '81n	99,235	98,976	97,116
Unemployment as % of Civilian Labor Force †	May '81n	7.6%	7.3%	7.6%
Personal Income*	Apr '81	$ 2,351	$ 2,338	$ 2,102
Leading Indicators Composite Index (1967=100) †	Apr '81	138.3	137.8	126.2
Industrial Production Index (1967=100) †	Apr '81	152.8	152.2	148.3
Net Change in Consumer Installment Credit †	Apr '81n	$ 2.33	$ 3.11	–$ 1.67
U.S. Merchandise Trade Balance †	Apr '81n	–$ 2.47	$ 0.49	–$ 1.20
Plant and Equipment Expenditures*	2nd Q'81	$317.29(a)	$310.59(a)	$294.36
Private Housing Starts (Thousands of Units)*	Apr '81	1,343	1,289	1,044
New Construction Expenditures*	Apr '81n	$ 244.6	$ 251.5	$ 225.8
Total Business Inventories †	Mar '81	$ 471.8	$ 470.8	$ 443.0
Total Business Sales †	Mar '81	$ 345.9	$ 346.4	$ 310.3

* Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. a-Anticipated.

durable and nondurable goods, also in April.

Nor is any sustained turnaround of these trends likely to occur soon. Automobile sales will remain depressed as buyers find themselves increasingly deterred by escalating sticker prices and lofty finance charges. New housing starts cannot help but slump further in response to the inability of builders to sell existing new homes and the massive disintermediation that has been occurring at the nation's thrift institutions, which will make mortgage markets even less accommodating to prospective homebuyers. Even industrial production and total employment, which have so far exhibited a persistent resiliency, will undoubtedly falter if new factory orders continue to ease. All the signs add up to an economy whose growth momentum may have already halted.

. . . May Have Already Peaked

The sluggish economy will ease upward interest rate pressures by reducing the demand for funds. It will also dampen upward price pressures. The rate of inflation has already declined substantially from year-ago levels when measured by every price index, and even more gains are likely to come. The continuing surplus of global oil supplies is now exerting

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since	
		Week Ago	Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (5/20/81)	119,019	+ 976	+23,826
New York City (5/20/81)	28,507	− 401	+ 6,230
Commercial Paper (5/20/81)	142,564	+ 500	+16,810

Bank Loans

(Millions of Dollars)

	Commercial and Industrial Loans		
	Latest Week	Change Since	
Weekly Reporting Large Commercial Banks		Week Ago	Year Ago
Nationwide (5/20/81)	174,863	− 668	+16,995
New York City (5/20/81)	50,955	− 430	+ 4,726

	Total Loans Gross Adjusted		
	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (5/20/81)	431,930	− 1,382	+38,088
New York City (5/20/81)	101,959	− 858	+13,355

Financial Markets

	Friday 6/5/81	Change Since	
		Week Ago	Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	16.57%	+ 1.58	+ 9.03
180-Day Bills†	16.00	+ 2.00	+ 7.88
Longest Bills†	15.17	+ 2.02	+ 6.70
Recent Issues:			
$15\frac{5}{8}$s 5/31/81	15.40	+ 2.22	
$13\frac{3}{8}$s 3/31/85	12.98	− 1.02	
$14\frac{1}{2}$s 5/15/91	13.81	+ .39	
$13\frac{7}{8}$s 5/15/11	13.96	+ .96	
Municipals:			
Bond Buyer–20 Bond Index* (6/4/81)	10.59%	− .05	+ 2.92
Blue List Total ($ Million)	$ 820	− $ 24	− $ 127
30-Day Visible Supply ($ Million)	$2,167	+ $351	+ $ 86
Total	$2,987	+ $327	− $ 41
Corporates:			
Moody's Aa Composite (6/4/81)	14.72%	− .24	+ 2.87
Money Mgr.–30-Day Supply ($ Million)	$6,369	+ $ 95	+ $3,546
Stocks:			
Dow-Jones Averages:			
Industrials	993.79	+ 2.04	+ 132.27
Transportation	426.28	− 9.51	+ 148.19
Utilities	105.70	− 1.97	− 4.38
65 Stocks	383.83	− 3.31	+ 70.89
Standard and Poor's 500 Stocks	132.10	− .49	+ 18.90
N.Y.S.E. Composite Index	76.73	− .26	+ 12.06
N.Y.S.E. Avg. Daily Vol. for Week (000's)	54,040	+ 827	21,398

* 46% Taxable equivalent 19.61%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 6/5/81	Week Ago
Overnight	19.38%	17.50%
1 month	19.00	17.81
3 month	18.50	17.63
6 month	17.38	16.75
1 year	16.50	16.13
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	14.75%	14.80%
Long Term (7 to 15 yrs.)	14.60	14.55

FOREIGN EXCHANGE SPOT RATES **New York Opening (6/5/81)**	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02527	39.58
Canada	.8266	1.2098
Denmark	.1307	7.6500
France	.1739	5.7500
Germany	.4118	2.4285
Italy	.0008271	1209.00
Japan	.004375	228.60
Mexico	.04122	24.26
Netherlands	.3704	2.7000
Switzerland	.4666	2.1430
U.K.	1.9310	.5179

significant downward pressures on crude oil prices. What is more, adequate crop and livestock supplies should preclude another food price surge for a while and the depressed condition of the nation's housing market will put a lid on home price increases.

But the confluence of favorable factors now affecting the inflation outlook does not only include food and energy price moderation. The soaring external value of the dollar, for example (Financial Digest—June 1, 1981), should reduce the cost of imported goods and services, while higher carrying costs have already encouraged financial asset acquisition at the expense of purchases of precious metals and other commodities. This, together with some abatement of inflation expectations, has already contributed to the decline in commodities' prices over the past half year. The BLS spot price index of all commodities at the end of May stood almost 11 per cent below its early-November, 1980 peak, while the industrial metals index has declined by almost eight per cent during the period. H

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6/15/81

The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, JUNE 15, 1981 VOLUME XVIII, NUMBER 24

More Good News On Inflation

Among the more favorable economic developments occurring during the early months of 1981 has been a marked reduction in the rate of inflation. This trend continued in May. The producer price index (PPI) for finished goods rose only 0.4 per cent last month, following an increase of 0.8 per cent in April and a sizable 1.3 per cent rise in March. At other stages of processing, the improvement was even more dramatic. Raw materials' prices declined by 0.5 per cent in May compared with April, in sharp contrast with the 1.5 per cent increase just one month before. At the intermediate level, producers' costs rose by 0.5 per cent, which was less than half the rate posted in April.

Food prices continue to exert a favorable impact on the rate of inflation. Raw foodstuffs and feedstuffs, which declined in five out of the last six months—fell by 1.1 per cent in May. This, in turn, lowered the cost of farm products at other stages of production, especially at the intermediate level, where materials for food manufacturing posted a 1.4 per cent drop. Finally, costs to retailers remained relatively unchanged as finished foods' prices rose a slight 0.2 per cent.

Another major factor dampening the rate of inflation last month was energy. Prices of refined petroleum products dropped 1.1 per cent in May month-over-month following a 1.7 per cent increase in April and a 7.4 per cent jump in March. Despite the strike by the United Mine Workers, coal prices fell 0.7 per cent during the month. What is more, the outlook for energy prices is for further moderation in the months ahead. The dramatic decline in domestic and global petroleum consumption, together with continuing high production assures further downward pressures on world crude oil prices.

Increased Defense Spending . . .

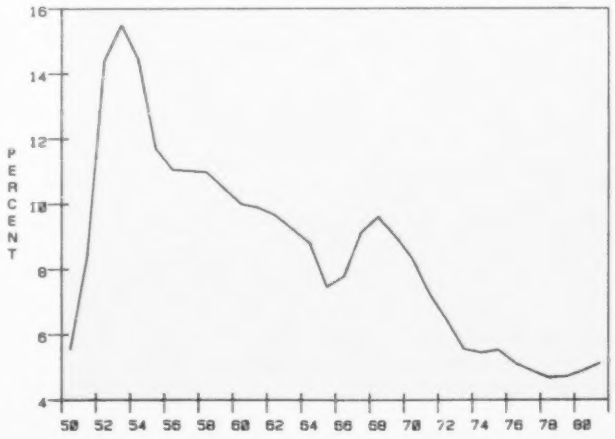
However, the improvement in inflation may be retarded by increased Federal government spending on national defense. The estimate by the Office of Management and Budget of average "real" growth in defense outlays of 10.5 per cent per year over the next five years has caused concern in some quarters, because every major defense buildup since World War II has been accompanied by rapidly accelerating inflation. The most frequent comparison is made with the military buildup associated with the Vietnam war in the 1960s, which touched off a price surge that lifted the average rate of inflation from less than 1.3 per cent per annum in the first half of the 1960s to close to six per cent annually at the end of the decade.

Government spending on defense tends to be more inflationary than private spending because the items that are eventually produced do not add to the supply of goods and services available for domestic consumption, even though workers have more buying power. However, although stepped-up real military spending may give a boost to inflation, it is not likely to impact prices as much as it did in the 1960s.

. . . May Not Be Too Inflationary

First, and of primary importance, the buildup is going to be spread over a longer period of time. According to OMB estimates, real defense spending is forecast to rise by about 50 per cent over the next five years. This compares with a similar-sized expansion of real defense outlays that took only three years in the 1960s. Second, the economy can

FEDERAL BUDGET OUTLAYS FOR NATIONAL DEFENSE
AS A PERCENT OF GNP (CONSTANT 1972 DOLLARS)



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absorb this expansion much better than it could during the earlier period, since real defense expenditures now account for a much smaller share of the real GNP (see chart on previous page). Even if the President's proposals are enacted in their entirety, defense spending will represent less than seven per cent of the GNP when inflation is factored out — below the 7.5 per cent level that prevailed *prior* to the Vietnam buildup.

The claim on manpower and materials will also be less taxing this time because today's economy has much more room to expand without risk of developing severe bottlenecks, thus driving up wage and supply costs. Those shortages that do develop should be confined to such very specialized materials as strategic metals or certain types of skilled labor, such as electrical and nuclear engineers. Finally, capacity utilization in all manufacturing was 90 per cent immediately preceding the 1965-68 military buildup. Currently, it is barely above 80 per cent. The unemployment rate was 4.5 per cent in 1965; today it stands at 7.6 per cent.

The Economy Remains Stagnant

Utilization of both labor and machinery is likely to stay low for the next few months. The U.S. economy seems to be stagnating after the robust 8.4 per cent annual rate gain in the first quarter. Most of the

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 6/3/81	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	128.167	– .665	– 4.279
Loans to Depository Inst.	1.954	– .969	+ 1.495
Float	4.099	+ 1.728	+ .156
Total Reserve Bank Credit	143.710	– .280	+ 1.398
Treasury Deposits with Federal Reserve Banks	2.982	+ .152	– .904
Currency Outside Banks	122.375	– .259	+ 7.635
Member Bank Reserves:			
Required	39.855	+ .045	– 3.911
Excess (Deficiency)	.381	– .058	– .011
Total Reserves Held	40.236	– .013	– 3.922
Net Borrowed Reserves	1.286	– .889	+ 1.240
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	96.536	– .980	+19.824

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M-1A	361.1	– 3.5‡	– 1.2‡
M-1B	424.6	+ 6.8‡	+ 10.2‡
M-2 (April '81)	1,735.5	+ 12.8	+ 11.9
L (February '81)	2,421.5	+ 12.8	+ 10.4

†Seasonally adjusted.
*Seasonally adjusted annual rate.
‡Four-week moving average.

New York Money Market

Offering Rates 6/12/81	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	14.20%	13.45%	12.50%
* Federal Agencies	14.38	14.35	14.30
* Project Notes–Taxfree (46% Taxable Equivalent)	12.87	13.15	13.33
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	16.60	15.75	

‡Finance Company Paper–Prime	
5- 14 days	17.25%
15- 29 days	17.25
30- 59 days	17.00
60- 89 days	16.00
90-179 days	15.00
180-239 days	14.50
240-270 days	13.00

‡* Bankers' Acceptances	
Jul.	17.10%
Aug.	16.40
Sep.	15.85
Oct.	15.70
Nov.	15.20
Dec.	14.65

‡Industrial Paper–Prime	
30- 89 days	17.25%
90-120 days	16.00

†Federal Funds Effective Rate 18.35%

‡Discount basis. * Subject to availability. r Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'81	$ 2,854	$ 2,731	$ 2,572
Gross National Product (1972 Dollars)*	1st Q'81	$ 1,516	$ 1,486	$ 1,502
Percent Change, Annual Rate	1st Q'81	8.4%	3.8%	3.1%
Change in Consumer Prices (all urban consumers)*	Apr '81	4.8%	7.2%	10.8%
Change in Producer Prices*	May '81	4.8%	9.6%	6.0%
Civilian Employment (Thousands of Persons)†	May '81	99,235	98,976	97,116
Unemployment as % of Civilian Labor Force†	May '81	7.6%	7.3%	7.6%
Personal Income*	Apr '81	$ 2,351	$ 2,338	$ 2,102
Leading Indicators Composite Index (1967=100)†	Apr '81	138.3	137.8	126.2
Industrial Production Index (1967=100)†	Apr '81	152.8	152.2	148.3
Net Change in Consumer Installment Credit†	Apr '81	$ 2.33	$ 3.11	–$ 1.67
U.S. Merchandise Trade Balance†	Apr '81	–$ 2.47	$ 0.49	–$ 1.20
Plant and Equipment Expenditures*	3rd Q'81n	$322.88(a)	$317.29(a)	$296.23
Private Housing Starts (Thousands of Units)*	Apr '81	1,343	1,289	1,044
New Construction Expenditures*	Apr '81	$ 244.6	$ 251.5	$ 225.8
Total Business Inventories†	Mar '81	$ 471.8	$ 470.8	$ 443.0
Total Business Sales†	Mar '81	$ 345.9	$ 346.4	$ 310.3

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

upward momentum has evaporated, and a spreading weakness appears to have developed in many key sectors during the second quarter. For example, industrial production rose in April, but by only 0.4 per cent month-over-month. Retail sales gained 0.2 per cent in May — but this follows a 2.1 per cent setback in April, which was the largest monthly decline since March, 1975. Outstanding consumer installment credit expanded at a healthy pace in April, but most of the advance was attributed to auto rebates which were subsequently ended.

Housing and automobiles remain severely depressed. Housing starts have inched up slightly in the past two months, but they still are at their lowest level since the summer of 1980. Automobile sales ran at a 5.7 million unit annual rate in April and May — down from the 7.7 million unit rate posted in March while the rebates were in effect. Although these two sectors have been and will continue to be crucial determinants of the overall pace of economic activity, their relative importance has been increasingly overshadowed by the growth of the energy, defense, and high technology industries. This group in particular has offset the slump in autos and housing — at least until now. However, it would appear that the balance has tipped back toward autos and housing, for the overall economy seems to be declining.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (5/27/81)	120,051	+ 1,042	+25,425
New York City (5/27/81)	28,020	− 487	+ 5,708
Commercial Paper (5/27/81)	143,084	+ 520	+19,656

Bank Loans

(Millions of Dollars)

Weekly Reporting Large Commercial Banks	**Commercial and Industrial Loans** Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/27/81)	175,448	+ 586	+17,541
New York City (5/27/81)	51,348	+ 393	+ 4,897

	Total Loans Gross Adjusted Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (5/27/81)	434,005	+ 2,075	+40,342
New York City (5/27/81)	103,034	+ 1,075	+13,668

Financial Markets

	Friday 6/12/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	14.78%	− 1.79	+ 8.34
180-Day Bills†	14.68	− 1.32	+ 7.49
Longest Bills†	14.26	− .91	+ 6.59
Recent Issues:			
$15^{5}/_{8}$s 5/31/83	13.87	− 1.53	
$13^{3}/_{8}$s 3/31/85	13.77	+ .79	
$14^{1}/_{2}$s 5/15/91	13.30	− .51	
$13^{7}/_{8}$s 5/15/11	12.67	− 1.29	
Municipals:			
Bond Buyer—20 Bond Index* (6/11/81)	10.63%	+ .04	+ 3.10
Blue List Total ($ Million)	$1,080	+ $260	+ $ 37
30-Day Visible Supply ($ Million)	$2,005	− $162	− $ 599
Total	$3,085	+ $ 98	− $ 562
Corporates:			
Moody's Aa Composite (6/11/81)	14.39%	− .33	+ 3.07
Money Mgr.—30-Day Supply ($ Million)	$5,859	− $510	+ $3,192
Stocks:			
Dow-Jones Averages:			
Industrials	1,006.28	+ 12.49	+ 129.83
Transportation	426.34	+ .06	+ 148.61
Utilities	110.08	+ 4.38	− 3.69
65 Stocks	388.73	+ 4.90	+ 71.23
Standard and Poor's 500 Stocks	133.58	+ 1.48	+ 17.77
N.Y.S.E. Composite Index	77.60	+ .87	+ 11.47
N.Y.S.E. Avg. Daily Vol. for Week (000's)	52,038	− 2,002	+ 9,628

* 46% Taxable equivalent 19.69%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 6/12/81	Week Ago
Overnight	18.63%	19.38%
1 month	18.38	19.00
3 month	17.75	18.50
6 month	16.88	17.38
1 year	16.13	16.50
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	14.75%	14.75%
Long Term (7 to 15 yrs.)	14.75	14.60

FOREIGN EXCHANGE SPOT RATES

New York Opening (6/12/81)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02553	39.17
Canada	.8302	1.2046
Denmark	.1326	7.5400
France	.1751	5.7100
Germany	.4169	2.3985
Italy	.0008368	1195.00
Japan	.004447	224.85
Mexico	.04114	24.31
Netherlands	.3748	2.6680
Switzerland	.4746	2.1070
U.K.	1.9495	.5130

6/23/81

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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

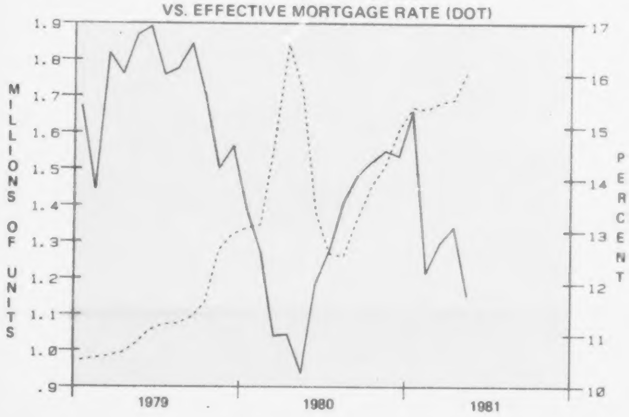
MONDAY, JUNE 22, 1981
VOLUME XVIII, NUMBER 25

Renewed Weakness In Housing . . .

With the release last week of a wide variety of closely watched economic indicators, it has become increasingly apparent that the pace of business activity has slowed substantially—if not actually declined. The growth momentum that developed at the end of last year evidently came to a halt at the end of the first quarter, and the economy has been weakening ever since.

One of the major reasons for the economy's weakness is the housing sector. High interest rates in general and mortgage rates in particular have packed a one-two punch, flattening residential construction. With mortgage interest rates above 15 per cent all this year, it is surprising that housing starts were able to bounce back in March and April (see chart), following February's plunge.

HOUSING STARTS (LINE)
VS. EFFECTIVE MORTGAGE RATE (DOT)



This expansion came to an abrupt end in May, however, when total new starts plummeted by 14 per cent to a seasonally adjusted annual rate of 1.15 million units, paced by a 16.3 per cent drop in single-family starts. Building permits issued—a harbinger of future housing activity—declined by 0.3 per cent. They would have declined even further had it not been for an unusually large increase in permits in Arizona, where builders stepped up their permit applications in May to avoid the imposition of larger fees in June. Nor was this the only dismal news in the housing sector. New home sales sagged by 13.5 per cent in April compared with the previous month.

With the rapid escalation in prices of new and existing homes over the past three years, and even more importantly, the high cost of financing them, an ever increasing portion of the population has been priced out of the housing market (Financial Digest—April 6, 1981). At today's mortgage interest rates—which averaged more than 16 per cent nationwide at the beginning of May according to the Federal Home Loan Bank Board—a purchaser of a median-priced existing home ($65,300) would have to pay approximately $665 per month, assuming a 25 per cent down payment and a 25-year maturity.

Taking into account the rule-of-thumb that monthly mortgage payments should not exceed one-fourth of a household's monthly gross income, over 80 per cent of first-time potential home buyers would not be able to afford such a home. What is more, when taxes are added to mortgage debt service, the proportion of those who cannot meet this requirement rises further. In contrast, the proportion of households unable to afford the median-priced home just three years ago was less than 50 per cent.

As long as builders cannot sell existing new homes and interest rates remain at prohibitively high levels, a sustained turnaround in housing starts is not likely to occur. Furthermore, the massive disintermediation that has been taking place at the nation's thrift institutions may make the mortgage market even less accommodating to prospective home buyers by pricing an even larger share of households out of the market or possibly by closing some mortgage lending windows entirely.

. . . And The Automobile Industry . . .

Similarly, automobile buyers continue to be deterred by a combination of sharply higher new car sticker prices as well as lofty finance charges. The automobile sales boom which took place during the late-February/mid-March period, ended abruptly, when the temporary price rebates were terminated late in March. Automobile sales plummeted by more than 25 per cent to a seasonally adjusted annual rate of 5.7 million units in April and have remained at this level through the first ten-day selling period in June.

The slide in car sales in April was the major contributor to the 2.1 per cent drop in sales by the

Manufacturers Hanover Trust Company
350 Park Avenue, New York, NY 10022

nation's retailers—the biggest monthly drop since the 1973-75 recession. In May, retail sales inched up by only 0.2 per cent. But even with the value of automobiles and automotive products sold excluded for these two months, retail sales remained flat, falling 0.05 per cent in April and rising 0.03 per cent last month. In the durable goods category, sales of building materials rose only one-tenth of one per cent in May. Most nondurable goods stores posted declines with the exception of food stores, gasoline service stations, apparel and accessory stores and drug stores.

Despite the depressed levels of automobile sales in April and May, auto manufacturers have been increasing production, with the aim of replenishing inventories which fell to a low, 44-day supply in March. Auto assemblies soared not only for the recently introduced models—which have been in short supply since their debut—but also for other models. Although the industry usually builds up inventories at this time of year in anticipation of summer plant closings and retooling for the next model year, this time inventories seem to have been overbuilt—at least by historical standards. On June 1, 1981, the industry had 70 days' supply of new cars, sharply above levels prevailing during this time in the 1976-79 period, when they averaged about 55 days of supply (and sales were expanding at an annual rate of nearly nine million units).

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 6/10/81	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	127.618	– .549	– 2.844
Loans to Depository Inst.	2.207	+ .253	+ 1.806
Float	3.628	– .356	– .707
Total Reserve Bank Credit	142.870	– .726	+ 2.563
Treasury Deposits with Federal Reserve Banks	2.613	– .369	– .271
Currency Outside Banks	122.842	+ .467	+ 7.883
Member Bank Reserves:			
Required	39.262	– .593	– 3.547
Excess (Deficiency)	.230	– .037	+ .081
Total Reserves Held	39.492	– .630	– 3.466
Net Borrowed Reserves	1.700	+ .300	+ 1.463
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	97.410	+ .874	+18.365

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M-1A	360.5	– 4.4‡	– 1.7‡
M-1B	425.4	+ 5.0‡	+ 9.8‡
M-2 (May '81)	1,741.7	+ 10.9	+ 11.2
L (March '81)	2,428.2	+ 10.6	+ 10.1

†Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 6/19/81	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	14.75%	14.15%	13.10%
* Federal Agencies	14.70	14.10	15.05
* Project Notes—Taxfree (46% Taxable Equivalent)	12.96	13.52	13.15
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	17.75	16.75	

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	17.50%	Jul.	18.00%
15- 29 days	17.50	Aug.	17.20
30- 59 days	17.00	Sep.	16.80
60- 89 days	15.75	Oct.	16.20
90-179 days	14.00	Nov.	15.45
180-239 days	13.75	Dec.	15.15
240-270 days	13.00		

‡Industrial Paper—Prime			
30- 89 days	18.00%	†Federal Funds	
90-120 days	16.75	Effective Rate	20.50%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'81	$ 2,853	$ 2,731	$ 2,572
Gross National Product (1972 Dollars)*	1st Q'81	$ 1,516	$ 1,486	$ 1,502
Percent Change, Annual Rate	1st Q'81	8.6%	3.8%	3.1%
Change in Consumer Prices (all urban consumers)*	Apr '81	4.8%	7.2%	10.8%
Change in Producer Prices*	May '81	4.8%	9.6%	6.0%
Civilian Employment (Thousands of Persons) †	May '81	99,235	98,976	97,116
Unemployment as % of Civilian Labor Force †	May '81	7.6%	7.3%	7.6%
Personal Income*	May '81n	$ 2,367	$ 2,354	$ 2,114
Leading Indicators Composite Index (1967=100) †	Apr '81	138.3	137.8	126.2
Industrial Production Index (1967=100) †	May '81n	152.8	152.3	144.0
Net Change in Consumer Installment Credit†	Apr '81	$ 2.33	$ 3.11	–$ 1.67
U.S. Merchandise Trade Balance†	Apr '81	–$ 2.47	$ 0.49	–$ 1.20
Plant and Equipment Expenditures*	3rd Q'81	$322.88(a)	$317.29(a)	$296.23
Private Housing Starts (Thousands of Units)*	May '81n	1,152	1,340	938
New Construction Expenditures*	Apr '81	$ 244.6	$ 251.5	$ 225.8
Total Business Inventories†	Apr '81n	$ 474.9	$ 472.4	$ 448.9
Total Business Sales†	Apr '81n	$ 346.1	$ 346.6	$ 301.2

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

. . . Add Up To A Slowdown

The sharp 7.5 per cent rise in motor vehicle assemblies in May—to a seasonally adjusted 7.3 million unit annual rate—was responsible for just about all of the 0.3 per cent gain in the index of industrial production. It boosted output of consumer goods and materials substantially. However, mining output fell for the second month in a row due to the coal strike. Production of energy-related materials continued to decline, as the oil industry attempted to reduce the surplus of petroleum products on the market. Finally, in response to the weakening housing sector, output of large appliances for the home as well as construction supplies slipped again.

Although industrial production has shown a persistent resiliency since the beginning of the year, it could weaken soon. The flatness of "real" retail sales over the past two months will cause inventories to rise unless manufacturers curtail production. Although the time lag between slumping sales and a slowing of industrial production has always been fairly short, during the past 16 months it has narrowed even further—to less than two months. Producers have been monitoring their stocks much more closely since the upturn in financing costs made excessive accumulation of inventories particularly costly.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (6/3/81)	120,634	+ 583	+26,952
New York City (6/3/81)	28,363	+ 343	+ 6,105
Commercial Paper (6/3/81)	142,922	− 162	+18,904

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/3/81)	176,620	+ 1,172	+18,000
New York City (6/3/81)	52,149	+ 801	+ 4,921

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/3/81)	437,255	+ 3,250	+42,795
New York City (6/3/81)	105,771	+ 2,737	+15,970

Financial Markets

	Friday 6/19/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	15.17%	+ .39	+ 8.00
180-Day Bills†	15.14	+ .46	+ 7.78
Longest Bills†	14.62	+ .36	+ 6.55
Recent Issues:			
14$^5/_8$s 6/30/83 (When Issued)	14.43	NA	
13$^3/_8$s 3/31/85	14.05	+ .28	
14$^1/_2$s 5/15/91	13.38	+ .08	
13$^7/_8$s 5/15/11	12.78	+ .11	
Municipals:			
Bond Buyer—20 Bond Index* (6/18/81)	10.73%	+ .10	+ 1.18
Blue List Total ($ Million)	$1,099	+ $ 19	− $ 21
30-Day Visible Supply ($ Million)	$2,254	+ $249	− $ 25
Total	$3,353	+ $268	− $ 46
Corporates:			
Moody's Aa Composite (6/18/81)	14.21%	− .18	+ 3.11
Money Mgr.—30-Day Supply ($ Million)	$7,553	+$1,694	+ $5,211
Stocks:			
Dow-Jones Averages:			
Industrials	996.19	− 10.09	+ 126.48
Transportation	420.23	− 6.11	+ 151.21
Utilities	110.26	+ .18	− 3.94
65 Stocks	384.94	− 3.79	+ 71.42
Standard and Poor's 500 Stocks	131.97	− 1.61	+ 17.91
N.Y.S.E. Composite Index	76.75	− .85	+ 11.55
N.Y.S.E. Avg. Daily Vol. for Week (000's)	54,446	+ 2,408	+ 15,412

*** 46% Taxable equivalent 19.87%.**

† Bond equivalent.

International Rates

	Friday 6/19/81	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	19.50%	18.63%
1 month	19.00	18.38
3 month	18.63	17.75
6 month	17.63	16.88
1 year	16.50	16.13
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	14.50%	14.75%
Long Term (7 to 15 yrs.)	14.70	14.75

FOREIGN EXCHANGE SPOT RATES

New York Opening (6/19/81)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02558	39.09
Canada	.8288	1.2065
Denmark	.1333	7.5025
France	.1751	5.7120
Germany	.4188	2.3875
Italy	.0008403	1190.00
Japan	.004467	223.85
Mexico	.04103	24.37
Netherlands	.3765	2.6560
Switzerland	.4808	2.0797
U.K.	1.9660	.5086

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The Manufacturers Hanover Financial Digest

Weekly Commentary, Selected Financial Data, and Business Indicators

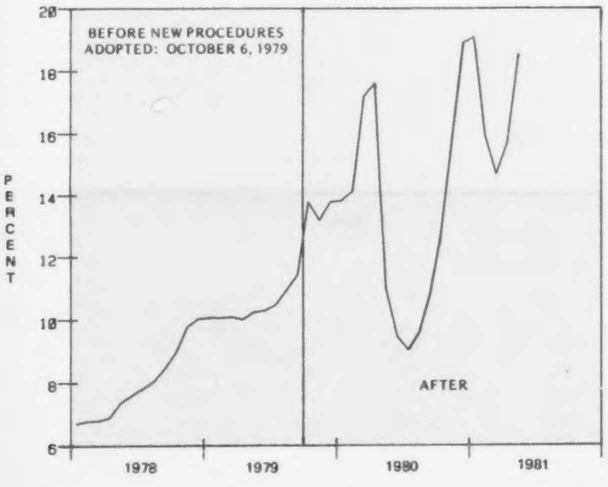
MONDAY, JUNE 29, 1981

VOLUME XVIII, NUMBER 26

Volatility Plagues Interest Rates . . .

One of the more dubious results of the Federal Reserve's new approach to the conduct of monetary policy has been a pronounced increase in the volatility of both short- and long-term interest rates. With such objectives as orderly financial market conditions and interest rate stability de-emphasized in favor of attempts to control the money supply, wide interest rate swings have not only been permitted, they have become the rule. But whether this approach can provide a suitable backdrop for real economic growth in a low-inflation rate environment remains to be seen. With the real cost of borrowing in the money and bond markets at record high levels, personal and business bankruptcies soaring, the interest rate-sensitive housing and automobile industries flattened (Financial Digest—June 22, 1981) and the outlook for the nation's thrift institutions deteriorating, the burden of proof lies not with the doubters of monetarism, but rather, with its adherents.

FEDERAL FUNDS RATE



Perhaps most indicative of the reduced importance of interest rate stability as the primary policy objective has been the behavior of the Federal funds rate—the price at which banks lend their excess reserves to one another. Whereas this rate had formerly been a principal instrument of monetary policy execution, whose movements were therefore indicative of alterations in the overall thrust of monetary policy, it no longer is, since such rigid control has clearly been de-emphasized. As shown in the chart, the funds rate has gyrated wildly since late 1979.

During the October, 1979-June, 1981 period (the 21-month interval in which the new policy procedures have been in effect), the month-over-month swing in the funds rate averaged approximately 175 basis points, or seven times the size of the average monthly change in this rate during the immediately preceding 21 months. What is more, the month-over-month change in the funds rate was greater than 100 basis points—both up and down—in 12 of the 21 months since October, 1979 and exceeded two full percentage points in seven of the 21 months. Not surprisingly, with most other interest rates influenced directly or indirectly by developments in the funds market, interest rate volatility across the entire maturity spectrum has increased markedly.

Such wide swings as these in the funds rate tend to be a misleading indicator of what the central bank is up to. Currently, for example, the lofty funds rate probably reflects more the stepped-up demand by commercial banks for purchased funds (while at the same time seeking to acquire a larger proportion of short-term liabilities than usual in the expectation of an imminent drop in interest rates) rather than the Fed's tugging on the monetary reins.

. . . Growth In Bank Reserves . . .

With the Federal Reserve unwilling to peg interest rates, thus eliminating much of the significance of fluctuations in such rates, a more useful approach to determining central bank policy intentions would appear to be its willingness to provide nonborrowed reserves—those supplied at the initiative of the Fed through open market operations and now its most direct operating target. But since specific information is only available on a weekly basis, this has prompted some market participants with a need for more up-to-the-minute information to go one step further and carefully monitor the interest rate levels

Manufacturers Hanover Trust Company
350 Park Avenue, New York, NY 10022

prevailing at the time the Fed conducts its reserve draining (dampening rate declines) or adding (dampening rate increases) operations. With this information, relationships between Fed funds intervention points and the intent of monetary policy are then deduced. Any divergence between the presumed intervention points and the rates prevailing when open market operations occur is taken to be indicative of a substantive policy shift.

This approach is, however, misguided. Since the Federal Reserve now attaches more importance to achieving its nonborrowed reserves target rather than a rigid Fed funds rate band, it is quite possible that in order to meet the former target, the latter must be violated. Thus, reserve draining operations can, and do, occur with the funds rate hovering near the upper end of its presumed target band or reserves are added when funds are trading near the lower end of the target band. Put simply, open market operations are no longer undertaken primarily to ensure interest rate stability, but rather to achieve reserve objectives.

Unfortunately, the relationship between reserve growth and the money supply has been somewhat erratic. Over the longer term, of course, the growth of nonborrowed reserves—the building blocks of the money supply—has to be an important determinant of money supply developments. To date, however,

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 6/17/81	$ Change Since	
		Week Ago	Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	129.362	+ 1.744	− .905
Loans to Depository Inst.	1.894	− .312	+ 1.499
Float	3.538	− .109	− .304
Total Reserve Bank Credit	144.556	+ 1.667	+ 4.359
Treasury Deposits with Federal Reserve Banks	3.196	+ .583	+ 1.173
Currency Outside Banks	122.796	− .045	+ 7.667
Member Bank Reserves:			
Required	40.223	+ .961	− 3.045
Excess (Deficiency)	.173	− .076	+ .019
Total Reserves Held	40.396	− .885	− 3.026
Net Borrowed Reserves	1.442	− .238	+ 1.212
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	95.853	− 1.557	+16.104
		% Change Since	
Monetary Aggregates†		Three Months Ago*	Year Ago
M-1A	362.0	− 4.0‡	− 1.8‡
M-1B	429.0	+ 4.6‡	+ 10.2‡
M-2 (May '81)	1,741.8	+ 10.9	+ 11.2
L (March '81)	2,428.2	+ 10.6	+ 10.1

† Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 6/26/81	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	14.00%	13.75%	13.00%
* Federal Agencies	14.70	15.26	15.14
* Project Notes—Taxfree (46% Taxable Equivalent)	13.06	13.61	13.06
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	17.13	17.35	16.00

‡ Finance Company Paper—Prime	
5- 14 days	16.00%
15- 29 days	16.50
30- 59 days	16.50
60- 89 days	15.00
90-179 days	14.00
180-239 days	13.00
240-270 days	13.00

‡* Bankers' Acceptances	
Jul.	16.85%
Aug.	16.60
Sep.	16.25
Oct.	16.00
Nov.	15.45
Dec.	15.20

‡ Industrial Paper—Prime	
30- 89 days	16.88%
90-120 days	16.00

† Federal Funds Effective Rate 18.50%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'81	$ 2,853	$ 2,731	$ 2,572
Gross National Product (1972 Dollars)*	1st Q'81	$ 1,516	$ 1,486	$ 1,502
Percent Change, Annual Rate	1st Q'81	8.6%	3.8%	3.1%
Change in Consumer Prices (all urban consumers)*	May '81n	8.4%	4.8%	10.8%
Change in Producer Prices*	May '81	4.8%	9.6%	6.0%
Civilian Employment (Thousands of Persons)†	May '81	99,235	98,976	97,116
Unemployment as % of Civilian Labor Force†	May '81	7.6%	7.3%	7.6%
Personal Income*	May '81	$ 2,367	$ 2,354	$ 2,114
Leading Indicators Composite Index (1967=100)†	Apr '81	138.3	137.8	126.2
Industrial Production Index (1967=100)†	May '81	152.8	152.3	144.0
Net Change in Consumer Installment Credit†	Apr '81	$ 2.33	$ 3.11	−$ 1.67
U.S. Merchandise Trade Balance†	Apr '81	−$ 2.47	$ 0.49	−$ 1.20
Plant and Equipment Expenditures*	3rd Q'81	$322.88(a)	$317.29(a)	$296.23
Private Housing Starts (Thousands of Units)*	May '81	1,152	1,340	938
New Construction Expenditures*	Apr '81	$ 244.6	$ 251.5	$ 225.8
Total Business Inventories†	Apr '81	$ 474.9	$ 472.4	$ 448.9
Total Business Sales†	Apr '81	$ 346.1	$ 346.6	$ 301.2

* Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. a-Anticipated.

the growth of nonborrowed reserves has been almost as volatile as interest rates—ranging from a decline of almost 16 per cent at annual rates during the first quarter of 1980, to a more than 30 per cent annual rate of rise during the following quarter (when the real GNP registered its largest quarterly contraction on record). What is more, this "stop-go" policy has persisted: During the almost seven full calendar quarters since third quarter, 1979, the growth of nonborrowed reserves has expanded at double-digit annual rates in three of them, followed in each instance by either a negative growth quarter or much slower expansion, always at an annual rate less than one-half of that posted during the preceding quarter. As a result, and as indicated in the chart on the back page, such instability may have contributed to a similar "stop-go" money supply growth pattern, prompting countervailing policy actions and subsequent interest rate instability.

. . . And The Money Supply

Because abrupt changes in the money supply tend to prompt alterations in central bank policy, the weekly money supply statistics have assumed an importance out of all proportion to their reliability. By juxtaposing the weekly money supply results with quarterly and annual target ranges, conclusions are reached in the money market as to the likely success or failure of monetary policy. But what this

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (6/10/81)	118,950	– 1,686	+24,912
New York City (6/10/81)	27,991	– 372	+ 5,503
Commercial Paper (6/10/81)	145,155	+ 2,233	+20,514

Bank Loans

(Millions of Dollars)

Weekly Reporting Large Commercial Banks	**Commercial and Industrial Loans** Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/10/81)	176,001	– 622	+18,215
New York City (6/10/81)	51,729	– 420	+ 5,172

	Total Loans Gross Adjusted Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/10/81)	436,044	– 1,288	+42,436
New York City (6/10/81)	103,449	– 2,322	+14,191

Financial Markets

	Friday 6/26/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	14.81%	– .36	+ 7.17
180-Day Bills†	15.06	– .08	+ 7.27
Longest Bills†	14.67	+ .05	+ 6.55
Recent Issues:			
$14\frac{5}{8}$s 6/30/83	15.56	+ 1.13	
$13\frac{3}{8}$s 3/31/85	14.36	+ .33	
$14\frac{1}{2}$s 5/15/91	13.67	+ .29	
$13\frac{7}{8}$s 5/15/11	13.12	+ .34	
Municipals:			
Bond Buyer—20 Bond Index* (6/25/81)	10.74%	+ .01	+ 2.98
Blue List Total ($ Million)	$1,890	+$ 791	+ $ 574
30-Day Visible Supply ($ Million)	$1,125	–$1,129	– $ 573
Total	$3,015	–$ 338	+ $ 1
Corporates:			
Moody's Aa Composite (6/25/81)	14.34%	+ .13	+ 3.20
Money Mgr.—30-Day Supply ($ Million)	$7,845	+$ 292	+ $4,150
Stocks:			
Dow-Jones Averages:			
Industrials	992.87	– 3.32	+ 111.04
Transportation	419.37	– .86	+ 143.41
Utilities	108.76	– 1.50	– 5.84
65 Stocks	383.23	– 1.71	+ 64.85
Standard and Poor's 500 Stocks	132.70	+ .73	+ 16.70
N.Y.S.E. Composite Index	76.97	+ .22	+ 10.63
N.Y.S.E. Avg. Daily Vol. for Week (000's)	44,732	– 9,714	+ 5,454

* 46% Taxable equivalent 19.89%.

† Bond equivalent.

International Rates

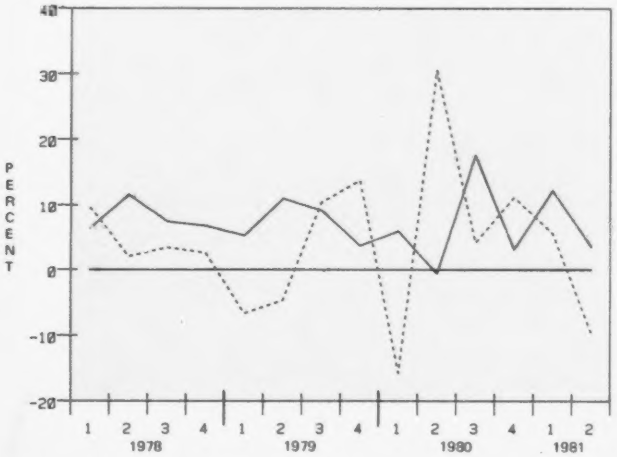
EURODOLLAR DEPOSIT RATES (bid)	Friday 6/26/81	Week Ago
Overnight	19.00%	19.50%
1 month	18.75	19.00
3 month	18.50	18.63
6 month	17.75	17.63
1 year	16.63	16.50
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	15.10%	14.75%
Long Term (7 to 15 yrs.)	14.85	14.75

FOREIGN EXCHANGE SPOT RATES

New York Opening (6/26/81)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02545	39.29
Canada	.8313	1.2029
Denmark	.1326	7.5400
France	.1738	5.7550
Germany	.4162	2.4025
Italy	.0008354	1197.00
Japan	.004433	225.60
Mexico	.04095	24.42
Netherlands	.3750	2.6665
Switzerland	.4889	2.0455
U.K.	1.9375	.5161

has done is cause people to pay an undue amount of attention to data which are, by and large, statistically unsound. Any weekly number tends to be mostly influenced by random events and contains a lot of statistical noise, and the money supply is no exception. In fact, the Federal Reserve itself estimates that this noise factor could move the money supply up or down by more than $3 billion in any given week.

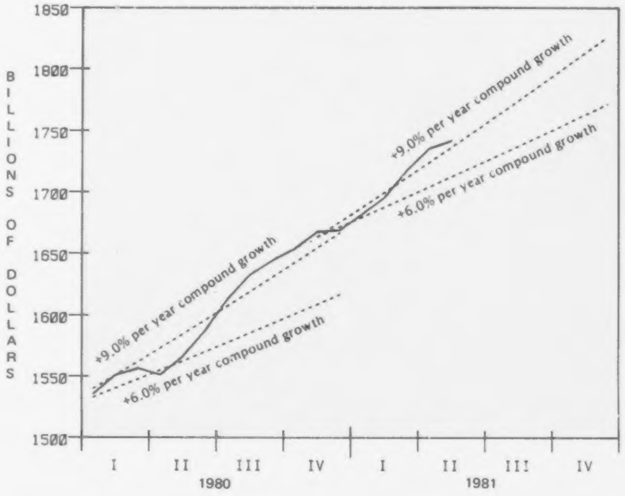
PERCENT CHANGE IN M-1B (LINE)
VS. PERCENT CHANGE IN NONBORROWED RESERVES (DOT)
(END-OF-QUARTER OVER END-OF-QUARTER, ANNUAL RATES)



More important, with the Fed now paying more attention to M-2, undue concern with fluctuations in M-1B could lead to erroneous conclusions as to the likely thrust of future monetary policy. The most recent example: Although the year-to-date expansion of M-1B is now hovering near the lower end of its 1981 target range, monetary policy has not turned more accommodative, much to the disappointment of those who had been expecting sustained money and bond market rallies to result. Although interest rates have declined, the Federal funds rate has remained stubbornly high, reflecting ongoing monetary restraint in an effort to curb the growth of the broader money measure, M-2 (which Federal Reserve spokesmen have been advising bankers and others to watch more closely). During the quarter ending May 31, M-2, ballooned by a surge in the popularity of money market funds, advanced at an 11.4 per cent seasonally adjusted annual rate, placing its year-to-date growth outside the 1981 upper target boundary for M-2 of nine per cent.

Nor is the outlook much clearer. For if the growth of M-2 is to close the year within its specified upper target boundary, it will have to increase by less than $10.2 billion per month during the June-December, 1981 period. This would represent a substantial deceleration from past rates of growth. M-2 increased, on average, by almost $15 billion per month during both the June-December, 1980 period and the first five months of 1981. Thus, it appears quite likely that the central bank will not loosen the monetary reins significantly until M-2 growth returns to its target bands.

MONEY SUPPLY, M-2



The Same Old Story For Federal Finances

Less demand for short-term credit would help slow M-2 growth (or at least the growth of its transactions component), but softer business conditions might not be enough to produce significant declines in interest rates. This is because whatever reduction does occur in private sector credit demands will be replaced by Washington. In recent months, the Federal government's budget outlook has worsened because of a wide variety of factors ranging from the ongoing rise in transfer payments due to inflation, stepped-up defense outlays and the financial burden of servicing an ever-expanding debt (which now stands at almost $1 trillion) at prevailing high interest rates. And if the President's proposals to cut personal taxes and increase defense spending further gain Congressional support, prospects for an early balancing of the Federal budget will decrease even more.

Indicative of the magnitude of the problem was the May budget outcome. Expenditures exceeded revenues by $16.1 billion—about $2 billion more than in May, 1980. This brought the fiscal year-to-date red ink total to almost $64.5 billion, $9 billion higher than the comparable fiscal 1980 period. If the Reagan Administration's official estimate of a $55 billion deficit for the entire fiscal year is to be met, Washington will have to take in more than it spends from June through September. On the other hand, a continuation of the trends of the first eight months would produce a budget deficit for the fiscal year as a whole of almost $70 billion—a new record high.

Hanover
Financial
Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

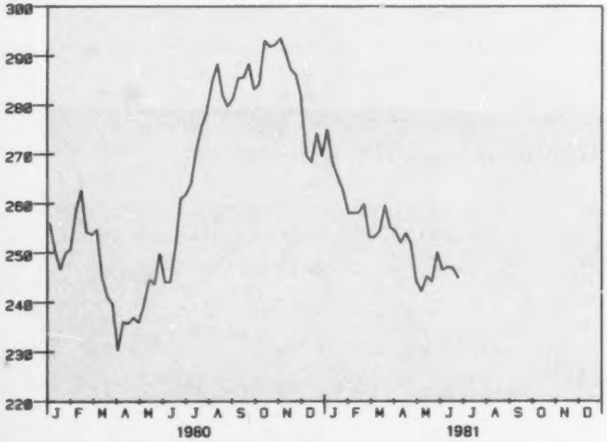
MONDAY, JULY 6, 1981 VOLUME XVIII, NUMBER 27

Food Prices May Rise . . .

With more stable food prices a major factor in this year's slowing of inflation, the question arises—how much longer can this continue? The cost of food at grocery stores has risen at an annual rate of only 3.1 per cent since January, in sharp contrast to the almost 20 per cent annual rate of rise registered during the second half of last year. Additional stability would appear likely, since in June, farm prices declined by 0.7 per cent, marking the sixth consecutive month of slumping prices. The sharpest drops were registered by such feedgrains as corn, soybeans and wheat.

Although rising costs associated with food marketing, processing and distribution have offset most of the price declines at the farm level—resulting in widening spreads between farmgate and retail—food prices nevertheless have had a significant dampening effect on the overall rate of inflation. The major factor responsible for the decline in farm commodity prices so far this year has been a sharp rise in supplies of meat and grains. In response to earlier increases in production costs, farmers were forced to sell their products instead of storing them, thus sending supplies to the marketplace. Now, expectations of abundant wheat supplies from the current harvest and a deterioration of soybean export prospects are further depressing these prices. Furthermore, the sharp appreciation of the external value of the dollar has and will continue to inhibit agricultural exports, thus leaving greater supplies for domestic consumption, further dampening prices.

FOODSTUFFS SPOT MARKET INDEX
(1967=100)



. . . But Only Moderately

It is becoming more likely, however, that this agricultural price stability may be about to end. Some upward pressures on food prices at grocery stores are expected during the second half of this year. The rise should be more modest than in last year's second half—but sharper than in the first half of 1981. For example, beef prices have already begun to rise again following a three-month decline. Currently, beef supplies are declining as a result of ranchers placing more animals in feedlots and breeding herds, in an effort to rebuild herds rather than bringing them to market. In April and May, cattle feeders in seven major states placed 22 per cent more cattle on feed than a year ago.

Adding to the near-term upward pressure on beef prices will be a decline in pork production, causing pork prices to rise. As the price differential between beef and pork narrows, consumers tend to step up their demand for beef, thus boosting its price. The nation's hog inventory in March dropped nine per cent compared with year-ago levels, while breeding stocks declined almost 11 per cent. As a result of this decline in breeding stocks, pork production may drop as much as ten per cent in the fourth quarter. This tightening of supplies has already caused hog prices to rise to $47.20 a hundredweight in June from $49.90 in May and $33.10 a year ago.

The decline in beef and pork supplies may also boost the price of chickens despite an expansion in broiler production. Broiler producers are lifting output in anticipation of reduced pork supplies, since chicken is frequently consumed as a less expensive substitute for red meat. If profit margins for producers improve (they have been caught in a cost-price squeeze since last year as the rise in cost of feed and other inputs has outpaced the rise in prices they receive), output for 1981 may be as much as five per cent above last year's level.

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The major determinant of the absolute level of meat prices will be the price and availability of feedgrains. Grain prices affect food prices through their effect on livestock profitability, and therefore livestock production. Although the 1981 grain harvest in the U.S. may be affected by the recent substantial rains in the major farming areas, it is still expected to exceed last year's drought-affected crop. The Department of Agriculture currently expects winter wheat production to reach a record high of 2.01 billion bushels—six per cent greater than last year. In the 15 major producing states, harvesting is ahead of schedule, although in some marginal producing areas harvesting has been delayed due to heavy rains. The spring wheat harvest is also ahead of schedule, as recent rainfall improved crop conditions and promoted growth.

According to the Agriculture Department's survey, which was conducted on June 1, farmers intend to increase the amount of land devoted to corn planting by two per cent to 84.7 million acres—the largest acreage in 32 years. This could raise the harvest of this key feedgrain to 7.6 billion bushels from last year's 6.6 billion. Although corn planting neared completion in all major producing areas by the end of June, heavy rains have caused concern. Wet soil delayed field work in Indiana where only 90 per

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 6/24/81	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	130.509	+ 1.147	− 1.189
Loans to Depository Inst.	2.305	+ .410	+ 1.987
Float	2.618	− 1.010	− 1.265
Total Reserve Bank Credit	145.990	+ 1.337	+ 4.405
Treasury Deposits with Federal Reserve Banks	3.021	− .175	− .171
Currency Outside Banks	123.510	+ .727	+ 7.894
Member Bank Reserves:			
Required	40.285	+ .062	− 2.795
Excess (Deficiency)	.405	+ .116	+ .237
Total Reserves Held	40.690	+ .178	− 2.558
Net Borrowed Reserves	1.594	+ .267	+ 1.453
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	95.846	− .007	+14.718

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M-1A (6/17/81)	362.0	− 4.2‡	− 2.3‡
M-1B (6/17/81)	429.0	+ 5.9‡	+ 9.4‡
M-2 (May '81)	1,743.7	+ 11.3	+ 11.2
L (March '81)	2,442.3	+ 10.9	+ 10.5

†Seasonally adjusted.
*Seasonally adjusted annual rate.
‡Four-week moving average.

New York Money Market

Offering Rates 7/2/81	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	14.15%	14.00%	13.30%
*** Federal Agencies**	14.35	14.60	15.00
*** Project Notes—Taxfree (46% Taxable Equivalent)**	12.78	13.43	NA
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
*** Secondary Market—Prime**	17.50	16.88	16.38

‡Finance Company Paper—Prime	
5- 14 days	18.50%
15- 29 days	18.13
30- 59 days	17.00
60- 89 days	15.00
90-179 days	14.00
130-239 days	13.00
240-270 days	12.00

‡* Bankers' Acceptances	
Aug.	17.50%
Sep.	17.00
Oct.	16.55
Nov.	16.35
Dec.	16.00
Jan.	15.70

‡Industrial Paper—Prime	
30- 89 days	17.75%
90-120 days	16.75

†Federal Funds Effective Rate 20.50%

‡Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'81	$ 2,853	$ 2,731	$ 2,572
Gross National Product (1972 Dollars)*	1st Q'81	$ 1,516	$ 1,486	$ 1,502
Percent Change, Annual Rate	1st Q'81	8.6%	3.8%	3.1%
Change in Consumer Prices (all urban consumers)*	May '81	8.4%	4.8%	10.8%
Change in Producer Prices*	May '81	4.8%	9.6%	6.0%
Civilian Employment (Thousands of Persons)†	Jun '81n	98,392	99,235	96,780
Unemployment as % of Civilian Labor Force†	Jun '81n	7.3%	7.6%	7.5%
Personal Income*	May '81	$ 2,367	$ 2,354	$ 2,114
Leading Indicators Composite Index (1967=100)†	May '81n	135.2	137.7	123.0
Industrial Production Index (1967=100)†	May '81	152.8	152.3	144.0
Net Change in Consumer Installment Credit†	Apr '81	$ 2.33	$ 3.11	−$ 1.67
U.S. Merchandise Trade Balance†	May '81n	− $2.44	− $2.47	− $2.94
Plant and Equipment Expenditures*	3rd Q'81	$322.88(a)	$317.29(a)	$296.23
Private Housing Starts (Thousands of Units)*	May '81	1,152	1,340	938
New Construction Expenditures*	May '81n	$237.3	$248.9	$218.9
Total Business Inventories†	Apr '81	$ 474.9	$ 472.4	$ 448.9
Total Business Sales†	Apr '81	$ 346.1	$ 346.6	$ 301.2

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

cent of intended acreage was planted, and in Ohio where 85 per cent has been completed. If fields do not dry to more normal levels soon, the remaining acreage may be put under soybean cultivation—soybeans adjust to a shorter growing season.

In sum, although it is difficult to estimate the precise size of this fall's harvest in view of the current adverse weather conditions, it does appear that supplies of grains—especially corn—will be plentiful. What is more, winter wheat, which makes up about three-quarters of the U.S. wheat crop, is now being harvested and is expected to be a record. This, in turn, may result in a greater number of animals put into feedlots, thus eventually expanding supplies. As a result, these developments should help moderate whatever rise in prices occurs in grocery stores during the next six months.

Plunging Commodity Prices . . .

Among the recent international economic developments that have been overlooked are the implications of plunging international commodity prices for less developed countries (LDCs). For the most part, the LDCs are exporters of primary materials and basic commodities—the prices of which, in many cases, have dropped precipitously in the last 12 months with an obvious effect on the LDCs' current

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (6/17/81)	117,544	– 1,394	+24,309
New York City (6/17/81)	27,553	– 438	+ 5,229
Commercial Paper (6/17/81)	146,910	+ 1,755	+21,877

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/17/81)	178,286	+ 2,291	+19,719
New York City (6/17/81)	52,621	+ 925	+ 5,681

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/17/81)	440,108	+ 4,097	+45,072
New York City (6/17/81)	106,109	+ 2,693	+16,148

Financial Markets

	Thursday 7/2/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	15.16%	+ .35	+ 6.94
180-Day Bills†	15.46	+ .40	+ 7.07
Longest Bills†	15.05	+ .38	+ 6.47
Recent Issues:			
$14^{5}/_{8}$s 6/30/83	14.62	– .94	
14s 6/30/85 (When Issued)	14.52	NA	
$14^{1}/_{2}$s 5/15/91	13.94	+ .27	
$13^{7}/_{8}$s 5/15/11	13.25	+ .13	
Municipals:			
Bond Buyer—20 Bond Index* (7/1/81)	10.85%	+ .11	+ 2.97
Blue List Total ($ Million)	$1,113	– $ 12	– $ 59
30-Day Visible Supply ($ Million)	$1,696	– $194	+ $ 35
Total	$2,809	– $206	– $ 74
Corporates:			
Moody's Aa Composite (7/1/81)	14.56%	+ .22	+ 3.26
Money Mgr.—30-Day Supply ($ Million)	$8,250	+ $405	+ $4,035
Stocks:			
Dow-Jones Averages:			
Industrials	959.19	– 33.68	+ 70.28
Transportation	409.60	– 9.77	+ 123.83
Utilities	106.74	– 2.02	– 8.85
65 Stocks	372.41	– 10.82	+ 49.05
Standard and Poor's 500 Stocks	128.65	– 4.05	+ 11.85
N.Y.S.E. Composite Index	74.73	– 2.24	+ 7.72
N.Y.S.E. Avg. Daily Vol. for Week (000's)	34,798	– 9,934	– 6,477

* 46% Taxable equivalent 20.09%.

† Bond equivalent.

International Rates

	Friday 7/3/81	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	19.25%	19.00%
1 month	18.75	18.75
3 month	18.19	18.50
6 month	17.81	17.75
1 year	16.81	16.63
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	14.60%	15.10%
Long Term (7 to 15 yrs.)	14.40	14.85

FOREIGN EXCHANGE SPOT RATES

New York Opening (7/3/81)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02531	39.51
Canada	.8319	1.2021
Denmark	.1322	7.5643
France	.1747	5.7250
Germany	.4149	2.4105
Italy	.0008325	1201.20
Japan	.004388	227.90
Mexico	.04082	24.50
Netherlands	.3731	2.6800
Switzerland	.4833	2.0693
U.K.	1.8940	.5280

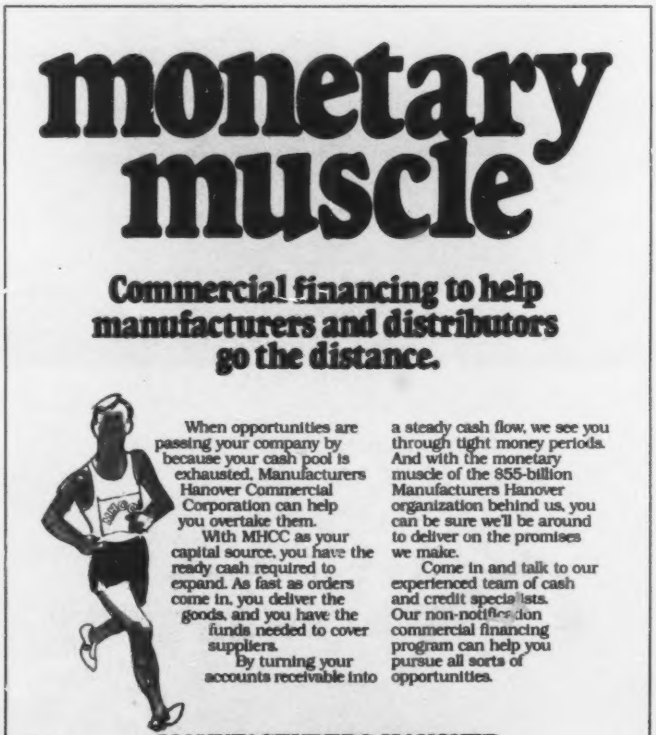
accounts. In an effort to generate sufficient foreign exchange to pay for higher oil import costs, other necessary imports and the rising cost of debt servicing, many LDCs have increased exports of basic commodities in spite of falling demand and declining prices. To the degree that a particular LDC's exports are concentrated in a single, or a small number of export commodities, these price declines have had a major impact on their domestic economies as well.

In the last year, for example, coffee prices have fallen by 51 per cent as supplies far exceeded consumption. Sugar prices, which were strong in 1980, have dropped sharply in 1981. Cocoa, an important export commodity for many countries in Africa, has shown a price decline of over 27 per cent in the last year—and over 50 per cent since the beginning of 1980. Copper prices, which were depressed early in the year, have recovered somewhat in recent months, but they are still running well below their 1980 averages. Last week, for example, copper cathodes were selling at 15.1 per cent below the price at the beginning of 1980.

Despite the current bleak outlook, however, commodity prices are capable of equally rapid recovery. For example, copper prices jumped about 46 per cent in 1979, reflecting high world demand and speculative stockbuilding that year. Coffee prices skyrocketed in 1976 and 1977 after a severe frost in Brazil cut deeply into the harvest. Sudden and sharp changes in commodity prices are frequent and result from a wide range of causes—climatic, economic, political and social. In spite of numerous cartels and international agreements by producers and consumers, basic commodity prices have only rarely been stabilized.

. . . Affect LDC Earnings

Many, if not most, LDCs are dependent on one or a few predominant exports for a large part of their foreign exchange earnings. In 1980, 46 per cent of Chile's export earnings came from copper exports. In the same year 11 per cent of the Philippines' export earnings were from sugar and another nine per cent were from copper. Ghana's exports of cocoa generally account for over 60 per cent of foreign earnings. Brazil's coffee exports contributed 12 per cent to export earnings in 1980 and sugar another five per cent. In the Ivory Coast, cocoa and coffee account for well over half of the country's foreign exchange earnings. H



monetary muscle

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The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, JULY 13, 1981

VOLUME XVIII, NUMBER 28

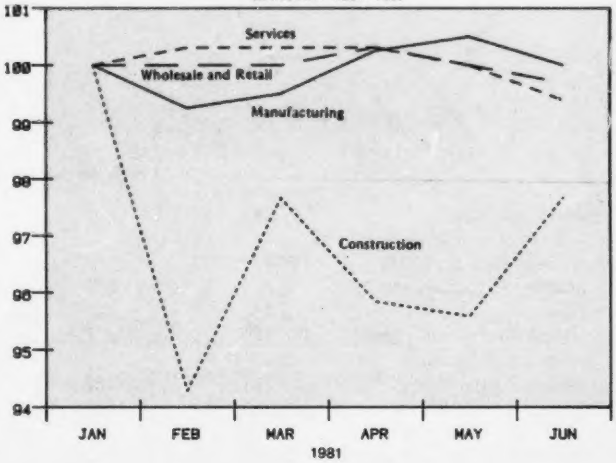
Labor Market Conditions . . .

The current high level of interest rates is beginning to take its toll. You can see its effects by looking at the labor markets. Although the unemployment rate declined in June to a seasonally adjusted 7.3 per cent of the work force from 7.6 per cent in May, this seems to be the result of a statistical quirk. There are growing signs that unemployment will soon rise. Sluggish industrial production, weak retail sales (especially of automobiles) and a sharp decline in the rate of new-home construction have caused employers in many industries to begin trimming payrolls.

The labor force typically expands in June, as large numbers of high school and college students start looking for jobs. Last month, the labor force increase was nearly 1.3 million, but this was only about one-half the amount the Bureau of Labor Statistics originally expected, based on historical trends. Therefore, after seasonal adjustment, this modest rate of rise was turned into a very large 1.2 million decline in the labor force compared with the previous month. Although job seekers 16-24 years old make up only 20 per cent of the total labor force, they were responsible for more than 80 per cent of the seasonally adjusted May-June decline.

The confusion over the May and June statistics has developed because many schools closed for the summer earlier than usual. Therefore, more students started their job search in the middle of May rather than in June. Since the BLS's seasonal factors are based on earlier years when school ended in June, it could not adjust sufficiently for the surge in job seekers which occurred in May. Indeed, in May the seasonally adjusted unemployment rate rose to 7.6 per cent of the labor force. A better picture may be constructed when an average of May and June is taken, thus cancelling out the effects of the improper seasonal factors, and then comparing the result with the previous two-month period. While the labor force expanded by a seasonally adjusted 342,000 persons during the May-June period, employment expanded by only one-third of that amount, unemployment surged by 222,000 and the unemployment rate averaged 7.5 per cent, compared with a March-April average of 7.3 per cent.

WEEKLY HOURS OF PRODUCTION WORKERS
(JANUARY 1981=100)



What is more, there are signs that unemployment may be headed higher. One important signal is last month's decline in the average number of hours worked per week. Usually, as production schedules slow, employers first cut down on overtime and then shorten the number of hours worked in plants before actually laying off their employees. Last month, the average workweek of production and nonsupervisory workers on private nonfarm payrolls declined by one-tenth of an hour to 35.3 hours from the previous month, as both goods-producing and service industries were affected. In manufacturing, the average workweek fell by two-tenths of an hour to 40.1, while in the durable goods industries it was shortened by three-tenths of an hour. Overtime in manufacturing edged down to an average of three hours per week.

. . . Begin To Deteriorate

Not surprisingly, the construction sector suffered the biggest contraction. Although the average number of hours increased in June to only 37.6 hours per week, it was still well below the 38.5 hours worked in January. What is more, since a large number of employees were laid off in the past two months, the total number of hours worked by all workers in this industry declined by more than seven per cent during the two-month period ending

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in May. Even the labor intensive service sector—which in the last recession was the last to be affected—has already incurred sharp declines in the average weekly hours worked in both May and June, as sluggish retail sales have resulted in cutbacks in payrolls.

Evidence of labor turnover in manufacturing also suggests a weakening in the labor market. In May, the total accession rate, which includes new hires, worker recalls and within-company transfers, declined for the third month. The rate of new hires is now 0.4 percentage points lower than in February. Similarly, the quit rate, which partially reflects workers' assessment of other job opportunities, fell to 1.3 workers per 100 employees in May from 1.5 in February. Typically, when unemployment rises, workers become more cautious about switching jobs and tend to hold on to their present jobs, fearing that lack of seniority in their new position could cause them to be laid off first. The layoff rate increased in June to 1.4 workers per 100 from 1.2 just one month before, while the help wanted advertising index compiled by the Conference Board—which is sensitive to changes in the demand for labor due to changes in general business conditions—has declined by ten points since the beginning of the year.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 7/1/81	S Change Since Week Ago	S Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies			
Owned Outright & RPs	130.131	− .378	− 2.701
Loans to Depository Inst.	1.735	− .570	+ 1.386
Float	3.310	+ .733	− .277
Total Reserve Bank Credit	146.159	+ .210	+ 3.727
Treasury Deposits with Federal Reserve Banks	3.213	+ .192	+ .122
Currency Outside Banks	122.965	− .545	+ 7.262
Member Bank Reserves:			
Required	40.830	+ .545	− 2.948
Excess (Deficiency)	.482	+ .118	+ .191
Total Reserves Held	41.312	+ .663	− 2.757
Net Borrowed Reserves	.947	− .688	+ .896
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	97.474	+ 1.628	+15.403

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M-1A	361.1	− 4.4‡	− 3.3‡
M-1B	427.3	+ 2.5‡	+ 8.4‡
M-2 (May '81)	1,743.7	+ 11.3	+ 11.2
L (March '81)	2,442.3	+ 10.9	+ 10.5

†Seasonally adjusted.

*Seasonally adjusted annual rate.

‡Four-week moving average.

New York Money Market

Offering Rates 7/10/81	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	14.60%	14.25%	13.45%
* Federal Agencies	15.35	15.45	15.48
* Project Notes—Taxfree (46% Taxable Equivalent)	12.96	14.26	NA
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	17.55	16.80	16.00

‡Finance Company Paper—Prime	
5- 14 days	18.00%
15- 29 days	18.00
30- 59 days	17.75
60- 89 days	16.00
90-179 days	14.75
180-239 days	12.00
240-270 days	12.00

‡* Bankers' Acceptances	
Aug.	17.95%
Sep.	17.60
Oct.	17.00
Nov.	16.90
Dec.	16.40
Jan.	16.00

‡Industrial Paper—Prime	
30- 89 days	18.00%
90-120 days	17.00

†Federal Funds Effective Rate 19.00%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'81	$ 2,853	$ 2,731	$ 2,572
Gross National Product (1972 Dollars)*	1st Q'81	$ 1,516	$ 1,486	$ 1,502
Percent Change, Annual Rate	1st Q'81	8.6%	3.8%	3.1%
Change in Consumer Prices (all urban consumers)*	May '81	8.4%	4.8%	10.8%
Change in Producer Prices*	Jun '81n	7.2%	4.8%	9.6%
Civilian Employment (Thousands of Persons)†	Jun '81	98,392	99,235	96,780
Unemployment as % of Civilian Labor Force†	Jun '81	7.3%	7.6%	7.5%
Personal Income*	May '81	$ 2,367	$ 2,354	$ 2,114
Leading Indicators Composite Index (1967=100)†	May '81	135.2	137.7	123.0
Industrial Production Index (1967=100)†	May '81	152.8	152.3	144.0
Net Change in Consumer Installment Credit†	May '81n	$ 1.35	$ 2.33	−$ 2.68
U.S. Merchandise Trade Balance†	May '81	−$ 2.44	−$ 2.47	−$ 2.94
Plant and Equipment Expenditures*	3rd Q'81	$322.88(a)	$317.29(a)	$296.23
Private Housing Starts (Thousands of Units)*	May '81	1,152	1,340	938
New Construction Expenditures*	May '81	$237.3	$248.9	$218.9
Total Business Inventories†	Apr '81	$ 474.9	$ 472.4	$ 448.9
Total Business Sales†	Apr '81	$ 346.1	$ 346.6	$ 301.2

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

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Autos Hit A Roadblock

Looking beneath the surface, one of the highest rates of unemployment continues to prevail in Detroit, where thousands of workers have been laid off as a result of depressed automobile sales. Although the unemployment rate in April (latest available) dropped to 13 per cent from 14.8 per cent in February, it is still almost twice the national average. There are several reasons for this improvement. Since March, the auto manufacturers have stepped up assemblies to replenish severely depleted inventories—which fell to 44 days' sales in March—as well as to prepare for summer plant closings necessary to retool for the 1982 model year. As a result, many production workers who were laid off previously were called back to work. However, many workers have become discouraged, since they have been unemployed for a long time and have given up on ever finding a job in Detroit again. They have either dropped out of the labor force completely or have moved away. Since they are not counted as unemployed any longer, this has also contributed to the drop in the unemployment rate.

However, if automobile sales do not pick up, unemployment may soon rise. The industry's recent sales performance makes inventories a potential

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (6/24/81)	121,226	+ 3,682	+28,040
New York City (6/24/81)	28,831	+ 1,278	+ 6,715
Commercial Paper (6/24/81)	148,623	+ 1,713	+22,923

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/24/81)	178,750	+ 454	+20,278
New York City (6/24/81)	51,994	− 627	+ 5,596

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (6/24/81)	439,753	− 355	+45,377
New York City (6/24/81)	104,252	− 1,857	+15,686

Financial Markets

	Friday 7/10/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	15.61%	+ .45	+ 7.44
180-Day Bills†	15.30	− .16	+ 7.02
Longest Bills†	14.85	− .20	+ 6.55
Recent Issues:			
$14^{5}/_{8}$s 6/30/83	14.62	−0−	
14s 6/30/85	14.85	+ .33	
$14^{1}/_{2}$s 5/15/91	13.80	− .14	
$13^{7}/_{8}$s 5/15/11	13.32	+ .07	
Municipals:			
Bond Buyer—20 Bond Index* (7/9/81)	10.97%	+ .12	+ 3.02
Blue List Total ($ Million)	$ 971	− $142	− $ 84
30-Day Visible Supply ($ Million)	$2,006	+ $310	− $ 207
Total	$2,977	+ $168	− $ 291
Corporates:			
Moody's Aa Composite (7/9/81)	14.68%	+ .12	+ 3.37
Money Mgr.—30-Day Supply ($ Million)	$8,004	− $246	+ $3,823
Stocks:			
Dow-Jones Averages:			
Industrials	955.67	− 3.52	+ 64.54
Transportation	403.76	− 5.84	+ 112.24
Utilities	107.64	+ .90	− 7.07
65 Stocks	370.44	− 1.97	+ 45.24
Standard and Poor's 500 Stocks	129.38	+ .73	+ 12.06
N.Y.S.E. Composite Index	75.15	+ .42	+ 7.70
N.Y.S.E. Avg. Daily Vol. for Week (000's)	45,994	+11,196	+ 1,488

* 46% Taxable equivalent 20.31%.

† Bond equivalent.

International Rates

	Friday 7/10/81	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	19.50%	19.25%
1 month	19.00	18.75
3 month	18.50	18.19
6 month	18.00	17.81
1 year	16.88	16.81
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	14.75%	14.60%
Long Term (7 to 15 yrs.)	14.75	14.40

FOREIGN EXCHANGE SPOT RATES

New York Opening (7/10/81)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02499	40.01
Canada	.8303	1.2044
Denmark	.1311	7.6292
France	.1710	5.8475
Germany	.4091	2.4445
Italy	.0008218	1216.80
Japan	.004371	228.80
Mexico	.04067	24.59
Netherlands	.3676	2.7200
Switzerland	.4793	2.0863
U.K.	1.8925	.5284

7/24/81

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The Manufacturers
Hanover
Financial
Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

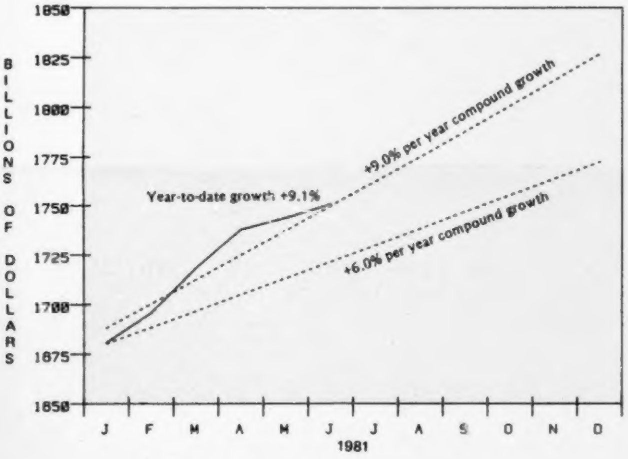
MONDAY, JULY 20, 1981
VOLUME XVIII, NUMBER 29

The Pull Of Demand-Side Factors . . .

Despite widespread expectations to the contrary, interest rates have remained high, both in the short- and long-term markets. Although such fundamentals as the pace of economic activity and the rate of inflation still point to some declines later this summer, other signs are ambiguous, thus delaying the onset of sustained money and bond market rallies.

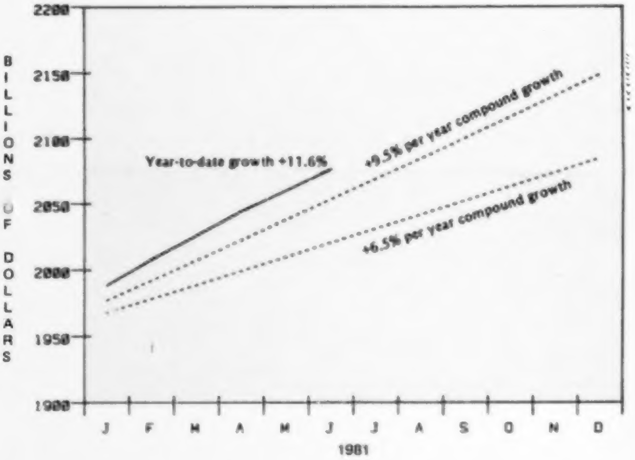
On the supply-side, the Federal Reserve continues to maintain a firm grip on the monetary reins. This posture is unlikely to be altered significantly until all the monetary aggregates return to their 1981 growth target boundaries. As a result, any interest rate declines will have to come from reduced demand, rather than increased supplies of funds from the Federal Reserve. What is more, when they do arrive, such declines are likely to occur in fits and starts, reflecting changes in the momentum of the economy, the inflation rate statistics and Treasury and corporate borrowing requirements.

MONEY SUPPLY, M-2



In the economy, the signals continue to indicate that the growth momentum so much in evidence in the first quarter ceased in the second—if it did not actually turn negative. Among the more recent indicators of the slump into which the economy has fallen is the 1.8 per cent drop in the index of leading economic indicators in May, the continuing sluggish pace of new automobile sales, which ran at less than a 5.6 million-unit annual rate in the second quarter, almost 25 per cent below first quarter levels, the weak pace of new housing starts, which fell to a 1.15 million-unit rate in May, compared with the almost 1.4 million-unit average which prevailed in the first quarter, and a sharp deterioration in U.S. export prospects abroad, as reflected in four consecutive monthly declines in new export orders for manufacturers' durable goods.

MONEY SUPPLY, M-3



But while the renewed downturn in the housing and auto industries may ensure that the "real" economy exhibits little or no growth in the spring and summer quarters, the decline may not be steep enough to reduce the demand for funds from the private sector. Retail sales growth, for example, turned positive again in June following two consecutive monthly declines, while factory orders and personal incomes continue to expand. What is more, such sectors as defense, energy and high technology—not to mention mergers and acquisitions—continue to require more money and credit. Finally, the current pause may be short-lived, if substantial personal and business tax cuts are enacted soon.

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. . . May Prompt Lower Interest Rates . . .

Perhaps the brightest economic news to emerge this year has been the slowing in the rate of inflation. A marked easing of food and energy price pressures has pushed the rate of inflation into single-digit territory. And although it now appears that a renewed upturn in food prices may offset some of the drop in energy costs, it remains unlikely that the rate of inflation will move back into double-digit annual rates for a sustained period any time soon.

This drop in the rate of inflation has not been matched by similar declines in rates of interest. In fact, just the opposite has occurred, with differentials between rates of inflation and interest rising to historic highs in both the money and credit markets (Financial Digest—May 11, 1981). Clearly, for this to occur, financial market participants—and especially buyers of long-term, fixed income debt obligations—must remain largely unconvinced that the recent abatement of inflationary pressures is permanent. As a result, inflation expectations among investors now far exceed the actual rate of inflation, and until such time as expectations move into better alignment with the price statistics, there is little reason to expect interest rates to drop.

If investors remain skittish about locking up the

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 7/8/81	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	131.014	+ .883	+ .329
Loans to Depository Inst.	1.868	+ .133	+ 1.652
Float	3.045	− .287	− 2.619
Total Reserve Bank Credit	146.653	+ .478	+ 4.392
Treasury Deposits with Federal Reserve Banks	2.934	− .279	− .168
Currency Outside Banks	124.308	+ 1.321	+ 7.498
Member Bank Reserves:			
Required	40.017	− .813	− 2.539
Excess (Deficiency)	.572	+ .084	+ .070
Total Reserves Held	40.589	− .729	− 2.469
Net Borrowed Reserves	1.054	+ .113	+ 1.346
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	96.370	− 1.104	+14.103

		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates †			
M-1A	364.8	− 3.9‡	− 2.6‡
M-1B	434.2	+ 1.9‡	+ 9.6‡
M-2 (June '81)	1,750.7	+ 7.5	+ 10.2
L (March '81)	2,442.3	+ 10.9	+ 10.5

† Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 7/17/81	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	14.45%	14.34%	13.57%
* Federal Agencies	15.75	15.70	14.93
* Project Notes—Taxfree (46% Taxable Equivalent)	13.52	13.89	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	17.50	17.13	16.50

‡ Finance Company Paper—Prime	
5- 14 days	17.25%
15- 29 days	17.25
30- 59 days	17.00
60- 89 days	16.00
90-179 days	15.00
180-239 days	14.63
240-270 days	13.00

‡* Bankers' Acceptances	
Aug.	17.25%
Sep.	17.00
Oct.	16.70
Nov.	16.40
Dec.	16.00
Jan.	15.80

‡ Industrial Paper—Prime	
30- 89 days	17.13%
90-120 days	16.75

† Federal Funds	
Effective Rate	17.85%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'81	$ 2,853	$ 2,731	$ 2,572
Gross National Product (1972 Dollars)*	1st Q'81	$ 1,516	$ 1,486	$ 1,502
Percent Change, Annual Rate	1st Q'81	8.6%	3.8%	3.1%
Change in Consumer Prices (all urban consumers)*	May '81	8.4%	4.8%	10.8%
Change in Producer Prices*	Jun '81	7.2%	4.8%	9.6%
Civilian Employment (Thousands of Persons) †	Jun '81	98,392	99,235	96,780
Unemployment as % of Civilian Labor Force †	Jun '81	7.3%	7.6%	7.5%
Personal Income*	May '81	$ 2,367	$ 2,354	$ 2,114
Leading Indicators Composite Index (1967=100) †	May '81	135.2	137.7	123.0
Industrial Production Index (1967=100) †	Jun '81n	152.7	152.8	141.5
Net Change in Consumer Installment Credit †	May '81	$ 1.35	$ 2.33	−$ 2.68
U.S. Merchandise Trade Balance †	May '81	−$ 2.44	−$ 2.47	−$ 2.94
Plant and Equipment Expenditures*	3rd Q'81	$322.88(a)	$317.29(a)	$296.23
Private Housing Starts (Thousands of Units)*	Jun '81n	1,032	1,159	1,184
New Construction Expenditures*	May '81	$ 237.3	$ 248.9	$ 218.9
Total Business Inventories †	May '81n	$ 477.8	$ 474.6	$ 450.3
Total Business Sales †	May '81n	$ 344.2	$ 345.7	$ 298.0

* Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. a-Anticipated.

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high yields now prevailing in the credit markets, borrowers, in contrast, appear undeterred by prevailing high interest rates. Despite high real borrowing costs—as well as rising household and business bankruptcies—credit demands remain strong in many sectors of the economy. The rapid growth of short-term business credit demands, whether to finance either intended or unintended inventory accumulation or mergers and acquisitions, has also been a principal factor in propping up short-term interest rates in recent weeks.

With loan portfolios ballooning but with the Federal Reserve supplying reserves to the banking system only very sparingly, banks have had to step up their purchases of funds in the money markets, putting upward pressures on all reserve-related interest rates. Besides the overall demand for funds, the length of time for which the funds are being borrowed has also kept interest rates high. In what is emerging as something of a Catch-22 situation, the banks are purchasing only short-term money, in the expectation of an imminent drop in interest rates. Yet, because the Fed is attempting to control only the supply of money and not its price, it is making no effort to offset the high interest rates that have resulted from this concentration of borrowing. Nor does much relief appear likely soon. Loan commit-

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (7/1/81)	122,706	+ 1,480	+30,825
New York City (7/1/81)	29,827	+ 996	+ 7,983
Commercial Paper (7/1/81)	149,050	+ 427	+23,929

Bank Loans

(Millions of Dollars)

	Commercial and Industrial Loans		
	Latest Week	Change Since Week Ago	Change Since Year Ago
Weekly Reporting Large Commercial Banks			
Nationwide (7/1/81)	182,409	+ 3,659	+22,557
New York City (7/1/81)	53,556	+ 1,562	+ 6,127

	Total Loans Gross Adjusted		
	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/1/81)	450,104	+10,351	+52,588
New York City (7/1/81)	109,715	+ 5,463	+19,275

Financial Markets

	Friday 7/17/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	15.09%	− .52	+ 7.08
180-Day Bills†	15.53	+ .23	+ 7.36
Longest Bills†	15.29	+ .44	+ 6.99
Recent Issues:			
$14\frac{5}{8}$s 6/30/83	15.01	+ .39	
14s 6/30/85	14.62	− .23	
$14\frac{1}{2}$s 5/15/91	14.06	+ .26	
$13\frac{7}{8}$s 5/15/11	13.38	+ .06	
Municipals:			
Bond Buyer—20 Bond Index* (7/16/81)	11.09%	+ .12	+ 3.06
Blue List Total ($ Million)	$ 951	− $ 20	− $ 2
30-Day Visible Supply ($ Million)	$1,665	− $341	− $ 733
Total	$2,616	− $361	− $ 735
Corporates:			
Moody's Aa Composite (7/16/81)	14.69%	+ .01	+ 3.26
Money Mgr.—30-Day Supply ($ Million)	$7,998	− $ 6	+ $4,462
Stocks:			
Dow-Jones Averages:			
Industrials	958.90	+ 3.23	+ 34.92
Transportation	411.40	+ 7.64	+ 101.80
Utilities	108.39	+ .75	− 5.89
65 Stocks	373.73	+ 3.29	+ 36.44
Standard and Poor's 500 Stocks	130.76	+ 1.38	+ 8.72
N.Y.S.E. Composite Index	75.96	+ .81	+ 6.12
N.Y.S.E. Avg. Daily Vol. for Week (000's)	42,854	− 3,140	− 9,750

* 46% Taxable equivalent 20.54%.

† Bond equivalent.

International Rates

	Friday 7/17/81	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	18.38%	19.50%
1 month	18.50	19.00
3 month	18.56	18.50
6 month	18.25	18.00
1 year	17.00	16.88
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	14.80%	14.75%
Long Term (7 to 15 yrs.)	14.70	14.75

FOREIGN EXCHANGE SPOT RATES

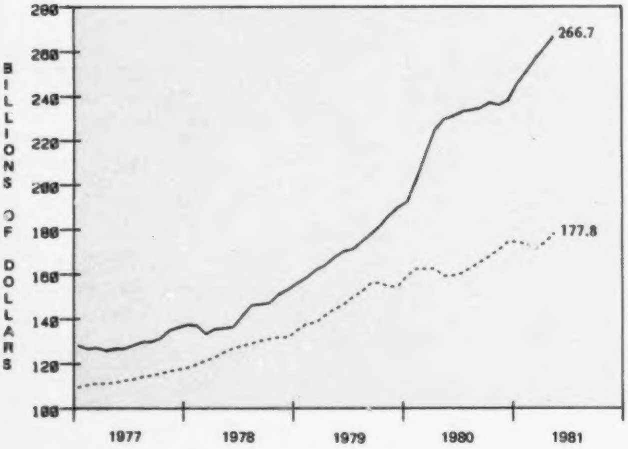
New York Opening (7/17/81)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02517	39.735
Canada	.8295	1.2055
Denmark	.1316	7.5993
France	.1737	5.7560
Germany	.4120	2.4270
Italy	.0008271	1209.00
Japan	.004316	231.70
Mexico	.04070	24.57
Netherlands	.3700	2.7030
Switzerland	.4794	2.0858
U.K.	1.8770	.5328

ments to commercial and industrial firms have increased even more rapidly than loans outstanding during the year ending May 31 (see following chart), suggesting that loan demand at commercial banks might remain strong for some time to come.

. . . But Not The Federal Reserve

As for the Federal Reserve, it is unlikely to execute an abrupt and unambiguous policy shift, at least in the near term. The upturn in the growth of non-borrowed reserves during the past month appears to be technical, not indicative of a relaxation of policy.

TOTAL LOAN COMMITMENTS (LINE) VS. OUTSTANDING C & I LOANS (DOT)



Indeed, no substantive change can be expected until all the monetary aggregates have returned to their respective 1981 growth target bands. Thus, the fact that M-1B is expanding at a seasonally adjusted annual rate well below its six per cent lower target boundary, should not be interpreted as a harbinger of an imminent relaxation of Fed policy, since the year-to-date growth of the broader monetary aggregates M-2 and M-3 is still above their upper target boundaries, as the charts on the front page indicate.

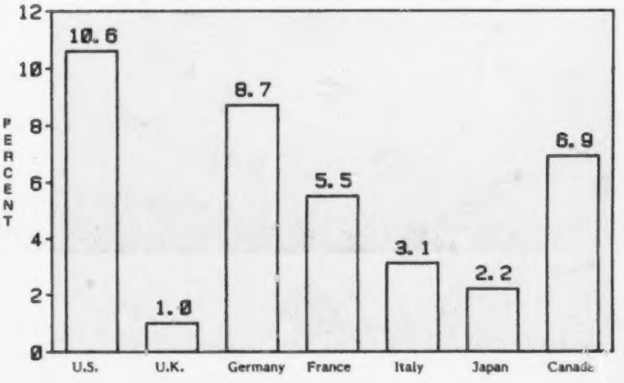
U.S. Interest Rates Slow Growth Abroad

Interest rates are also a major item on the agenda at the economic summit meeting in Ottawa this week. Although high U.S. interest rates have both internal and external impacts on the other industrial nations, it is the internal effects that are currently generating the greatest concern—particularly on employment and growth. The emphasis on internal effects is due to escalating unemployment which, according to the OECD, will rise in the other six countries attending the Ottawa meeting from 5.7 per cent in 1980 to close to seven per cent in 1981—high for these countries. The jump in unemployment is an important problem in each of these countries. France, for example, with an unemployment rate of 7.5 per cent and a new government committed to increasing job opportunities as well as the United Kingdom with an unemployment rate currently running at over ten per cent are particularly sensitive to this increase.

High real interest rates in the United States have had the effect of draining investment funds out of those economies where domestic interest rates are lower and into the U.S. or the Eurodollar market. This, in turn, has either increased domestic interest rates to business borrowers as rates have been raised competitively (see chart) or, where interest rates and the money supply are limited, credit has dried up. As a consequence, business borrowing has been discouraged, restricting economic growth and employment opportunities.

In an environment of sluggish growth or recession, rising unemployment, high inflation and slowing world trade, high borrowing costs for business add another onerous burden. The real cost of borrowing although lower in most cases than in the United States is superimposed on smaller, less flexible economies which do not display the signs of vigor still evident in some sectors of the U.S. economy. Further, many of the countries attending the conference, such as Japan, France and Italy have new governments committed to rapid economic resurgence and eager to begin this task. Others, such as Germany and the United Kingdom are facing internal political and economic problems that challenge the present incumbents.

REAL INTEREST RATES TO BORROWERS
(PRIME RATE LESS 12-MONTH PRICE CHANGE)



With the high probability that monetary policy in the U.S. will not ease rapidly, relatively high interest rates are likely to continue through year-end 1981, at least, continuing to attract funds from abroad. This will delay any recovery in other countries, whose governments would like to lower interest rates to stimulate their economies without further weakening their currencies. Even when U.S. interest rates do decline, however, they are likely to remain above other countries' rates, since foreign governments may allow their own rates to fall in step with ours to encourage economic activity.

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7/27/81

The Manufacturers Hanover Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, JULY 27, 1981
VOLUME XVIII, NUMBER 30

Another Drop In GNP

For the third year in a row, the U.S. economy contracted in the second calendar quarter. The gross national product adjusted for inflation fell at an annual rate of 1.9 per cent in second-quarter 1981; it plunged at a 9.9 per cent clip in 1980's second quarter and declined at a 1.7 per cent pace in the second quarter of 1979. Although not as bad as last year, 1981's decline is more serious than it looks. This is because there was a substantial increase in business inventories. The way the GNP numbers are put together, a stepup in the rate of stockpiling—for whatever reason—adds to the GNP. But this can not really be considered as a sign of strength, since sales to final consumers fell by an annual rate of almost five per cent.

The declines in the components of real final sales were widespread as they occurred in every major economic sector. Nonresidential fixed investment slipped six per cent at a seasonally adjusted annual rate, residential spending dropped by almost 20 per cent, the trade balance worsened and total government purchases—with the exception of Federal defense spending—declined. Finally, inflation adjusted consumer spending fell by 1.9 per cent, paced by a 23.5 per cent drop in credit-sensitive purchases of durable goods.

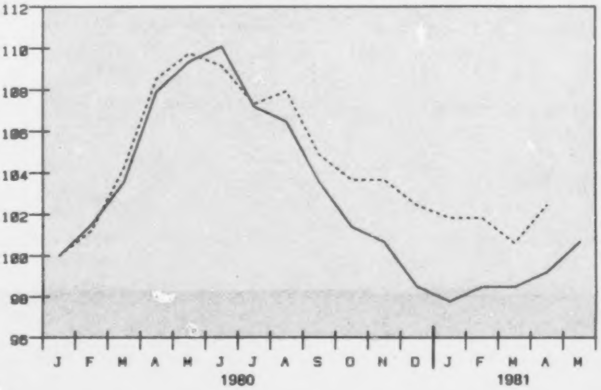
But this cloud had a silver lining. The Commerce Department reported a marked slowing in the rate of inflation. Measured by the GNP implicit deflator, prices rose at an annual rate of only six per cent in the second quarter, compared with a 9.8 per cent rate of rise registered during the previous period.

The Runup In Inventories . . .

Although some inventory buildup was expected, the magnitude of accumulation was surprising since most manufacturers, retailers and wholesalers have supposedly been keeping inventories lean. One reason for this belief is the repeated declines in economic activity referred to above—which were accompanied by repeated forecasts of further declines by many economists. Another—at least since the beginning of last year—has been high financing charges. But after a three-quarter drawdown which followed last year's recession, the value of inventories, after adjusting for inflation, surged $9.7 billion at an annual rate. Since inventories were liquidated at a $1.4 billion clip in the first quarter, this signifies a turnaround of $11.1 billion, which is the largest one-quarter swing in the past five years.

However, some accumulation was needed. Most businesses, particularly in the trade sector, let their inventory levels get too low as a byproduct of this year's combination of high interest rates and unexpectedly strong final sales. Although inventory-to-sales ratios have been climbing for the past few months (see chart), they remain well below last year's high levels—both nominally, and after adjusting for inflation.

MANUFACTURING & TRADE INVENTORY-TO-SALES RATIO (LINE) VS. MANUFACTURING & TRADE INVENTORY-TO-SALES RATIO ADJUSTED FOR INFLATION (DOT) (JANUARY 1980=100)



Nevertheless, the sharp increase in the value of inventories does not augur well for the GNP in the current quarter. Unless final sales pick up substantially, some manufacturers may be forced to trim production schedules even further to lighten the loads in their warehouses. And with interest rates likely to remain both high and volatile (Financial Digest—July 20, 1981), such a pickup in final sales may be long in coming.

Looking beneath the surface, the most dramatic upswing in inventories occurred in automobiles. This

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happened in sharp contrast to the first-quarter trend, when, with the help of substantial price rebates, stocks of autos were drawn down to a 44-day sales supply. Since then, car manufacturers have stepped up production not only to replenish inventories but also to prepare for summer plant closings to accommodate vacations and retooling for the new model year. However, slumping sales caused producers to overshoot, sending inventories far over their optimal levels.

On July 1, auto stocks shot up to a record 83½ days' supply. This is two-thirds greater than normal for this time period. During the second quarter, new-car sales fell by 25 per cent compared with the previous quarter to a seasonally adjusted 5.6 million unit rate. What is more, during the last ten-day selling period of the quarter, the sales rate plunged to a 30-year low, as sales ran at a 4.7 million unit rate. But because of the way that the Department of Commerce puts the GNP numbers together, the effect of the buildup in auto inventories offset the decline in auto sales. As a result, new car output remained unchanged from the first quarter and did not contribute to the decline in real GNP.

Stocks of petroleum products are also out of line with demand, despite a six-month slide in produc-

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 7/15/81	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	132.223	+ 1.209	+ .071
Loans to Depository Inst.	1.295	− .571	+ .963
Float	3.153	+ .170	− 2.116
Total Reserve Bank Credit	147.049	+ .457	+ 3.804
Treasury Deposits with Federal Reserve Banks	3.407	+ .473	+ .092
Currency Outside Banks	124.867	+ .551	+ 7.710
Member Bank Reserves:			
Required	40.495	+ .478	− 3.101
Excess (Deficiency)	.006	− .495	− .261
Total Reserves Held	40.501	− .017	− 3.362
Net Borrowed Reserves	1.042	− .082	+ .983
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	96.262	− .108	+13.995

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M-1A	360.4	− 4.3‡	− 3.6‡
M-1B	428.9	+ 0.4‡	+ 8.3‡
M-2 (June '81)	1,749.3	+ 7.2	+ 10.1
L (April '81)	2,453.8	+ 7.6	+ 10.6

† Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 7/24/81	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	14.90%	14.65%	13.65%
* Federal Agencies	15.60	16.30	15.30
* Project Notes—Taxfree (46% Taxable Equivalent)	12.59	14.72	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	18.13	17.88	16.90

‡ Finance Company Paper—Prime	
5- 14 days	17.88%
15- 29 days	18.25
30- 59 days	17.63
60- 89 days	16.00
90-179 days	15.13
180-239 days	14.38
240-270 days	13.00

‡* Bankers' Acceptances	
Aug.	18.00%
Sep.	17.60
Oct.	17.25
Nov.	17.10
Dec.	16.80
Jan.	16.40

‡ Industrial Paper—Prime	
30- 89 days	17.88%
90-120 days	17.50

† Federal Funds Effective Rate 18.75%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'81n	$ 2,881	$ 2,853	$ 2,565
Gross National Product (1972 Dollars)*	2nd Q'81n	$ 1,509	$ 1,516	$ 1,463
Percent Change, Annual Rate	2nd Q'81n	− 1.9%	8.6%	− 9.9%
Change in Consumer Prices (all urban consumers)*	Jun '81n	8.4%	8.4%	12.0%
Change in Producer Prices*	Jun '81	7.2%	4.8%	9.6%
Civilian Employment (Thousands of Persons) †	Jun '81	98,392	99,235	96,780
Unemployment as % of Civilian Labor Force †	Jun '81	7.3%	7.6%	7.5%
Personal Income*	Jun '81n	$ 2,382	$ 2,368	$ 2,127
Leading Indicators Composite Index (1967=100) †	May '81	135.2	137.7	123.0
Industrial Production Index (1967=100) †	Jun '81	152.7	152.8	141.5
Net Change in Consumer Installment Credit †	May '81	$ 1.35	$ 2.33	−$ 2.68
U.S. Merchandise Trade Balance †	May '81	−$ 2.44	−$ 2.47	−$ 2.94
Plant and Equipment Expenditures*	3rd Q'81	$322.88(a)	$317.29(a)	$296.23
Private Housing Starts (Thousands of Units)*	Jun '81	1,032	1,159	1,184
New Construction Expenditures*	May '81	$ 237.3	$ 248.9	$ 218.9
Total Business Inventories †	May '81	$ 477.8	$ 474.6	$ 450.3
Total Business Sales †	May '81	$ 344.2	$ 345.7	$ 298.0

* Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. a-Anticipated.

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tion of refined petroleum. In fact, many refiners have been operating at 50 to 60 per cent of capacity lately, compared with a 93 per cent utilization rate at the beginning of 1979.

The dismal condition of the housing sector had a significant negative impact on the GNP in several areas. For one thing, the precipitous drop in housing starts and completions resulted in a 17 per cent decline at an annual rate in the value of real residential investment. Furthermore, as purchases of new and existing homes slipped and new-home construction came to a halt, demand for such household goods as appliances and furnishings declined significantly thus contributing to the decline in personal consumption expenditures.

The strong dollar and the weakness in the economies of our trading partners also affected the GNP accounts. Inflation-adjusted exports were no higher in the second quarter than they were a year ago, while imports grew by five per cent during the same time period. During the second quarter of 1981, U.S. exports fell by a seasonally adjusted annual rate of 5.3 per cent compared with the first, after adjusting for inflation, reflecting the decline in the price competitiveness of U.S. exports. Despite a decline in imports of oil, total imports rose ten per

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (7/8/81)	122,410	– 362	+32,129
New York City (7/8/81)	29,395	– 432	+ 8,215
Commercial Paper (7/8/81)	151,553	+ 2,502	+26,795

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/8/81)	181,532	– 970	+22,380
New York City (7/8/81)	53,544	– 12	+ 6,097

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/8/81)	443,659	– 6,486	+48,387
New York City (7/8/81)	106,416	– 3,299	+16,933

Financial Markets

	Friday 7/24/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	15.60%	+ .51	+ 7.38
180-Day Bills†	16.00	+ .47	+ 7.55
Longest Bills†	15.70	+ .41	+ 7.06
Recent Issues:			
$15\frac{7}{8}$s 7/31/81 (When Issued)	15.56	NA	
14s 6/30/85	15.30	+ .68	
$14\frac{1}{2}$s 5/15/91	14.36	+ .30	
$13\frac{7}{8}$s 5/15/11	13.60	+ .22	
Municipals:			
Bond Buyer–20 Bond Index* (7/23/81)	11.34%	+ .25	+ 3.15
Blue List Total ($ Million)	$ 912	– $ 39	– $ 168
30-Day Visible Supply ($ Million)	$1,675	+ $ 10	– $ 428
Total	$2,587	– $ 29	– $ 596
Corporates:			
Moody's Aa Composite (7/23/81)	15.12%	+ .43	+ 3.60
Money Mgr.–30-Day Supply ($ Million)	$7,787	– $211	+ $4,001
Stocks:			
Dow-Jones Averages:			
Industrials	936.74	– 22.16	+ 18.65
Transportation	402.17	– 9.23	+ 98.27
Utilities	107.57	– .82	– 5.36
65 Stocks	366.05	– 7.68	+ 32.37
Standard and Poor's 500 Stocks	128.44	– 2.32	+ 7.66
N.Y.S.E. Composite Index	74.60	– 1.36	+ 5.50
N.Y.S.E. Avg. Daily Vol. for Week (000's)	43,194	+ 340	– 756

* 46% Taxable equivalent 21.00%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 7/24/81	Week Ago
Overnight	18.75%	18.38%
1 month	19.44	18.50
3 month	19.19	18.56
6 month	18.88	18.25
1 year	17.63	17.00
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	15.05%	14.80%
Long Term (7 to 15 yrs.)	15.00	14.70

FOREIGN EXCHANGE SPOT RATES

New York Opening (7/24/81)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02499	40.02
Canada	.8212	1.2178
Denmark	.1305	7.6603
France	.1721	5.8110
Germany	.4096	2.4415
Italy	.0008234	1214.50
Japan	.004259	234.80
Mexico	.0407	24.60
Netherlands	.3679	2.7180
Switzerland	.4738	2.1105
U.K.	1.8520	.5400

cent, as many foreign-made goods became cheaper in dollar terms. This trend will continue as long as the dollar remains strong.

. . . Suggests Further Weakness

The high level of inventories and the housing slump have already resulted in production cutbacks. Industrial production at the nation's factories and mines slipped one-tenth of one per cent in June. This was the first monthly drop since February. The decline would have been even steeper were it not for a rise in coal production—as striking miners returned to work—and a greater than seasonal generation of electricity.

The output declines were widespread among durable and nondurable goods industries. Importantly, production of paper and paperboard fell for the third consecutive month. Output of paperboard in particular is considered a good coincident indicator of the economy, since much is used for packaging various products. Substantial month-over-month declines were registered in the production of home goods. Output of appliances such as radio and television sets has declined by 12 per cent in the past two months.

There are still some areas of the economy that have not been affected by the slowdown. These include industries that produce such high technology products as communications equipment or electronic components. Additionally, defense-related industries are still growing, as Washington's defense spending continues to rise. ◼

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WEIGHT:
For many customers, Manufacturers Hanover has reduced the number of shareholder accounts by more than 10% – the result of seeking out duplicate accounts the previous stock transfer agent may have entered wrong.

REFLEXES:
At Manufacturers Hanover, shareholder records are accessible instantly. So you can respond without delay to such developments as tender offers.

MEMORY:
Our TRANSIFAC system maintains fully computerized audit controls over all work; keeps track of certificate inventory; and assures control over the production of certificates and transfer reports and the mailing of dividend checks.

POSTURE:
Manufacturers Hanover recognizes that the human side of this business is all-important. Not only will you have an account administrator coordinating all day-to-day tasks, but a backup team of three other officers thoroughly familiar with every aspect of your account. So you and your shareholders always have someone to turn to.

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IF YOUR STOCK TRANSFER AGENT CAN'T PASS IT, TALK TO MANUFACTURERS HANOVER.

Financial Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, AUGUST 3, 1981 VOLUME XVIII, NUMBER 31

Profits Take It On The Chin

Hit hard by declining "real" final sales, escalating labor costs and rising financing costs, many U.S. corporations reported lower earnings during the second quarter compared with the first. According to preliminary estimates by this Bank, profits from current production plunged by more than 13 per cent in the second quarter. Increasing costs combined with mounting inventories produced the steepest quarterly decline in earnings since the 15 per cent slide a year ago. That, in turn, was the sharpest drop in more than 26 years. When inventory profits are subtracted, last quarter's decline is even greater, topping 15 per cent. Notwithstanding this large quarter-to-quarter decline, second-quarter 1981 operating earnings were still 4¼ per cent higher than they were a year ago. However, comparisons with the weak second quarter, 1980 outcome may be misleading since demand during that time period was artificially depressed by the Fed's credit controls.

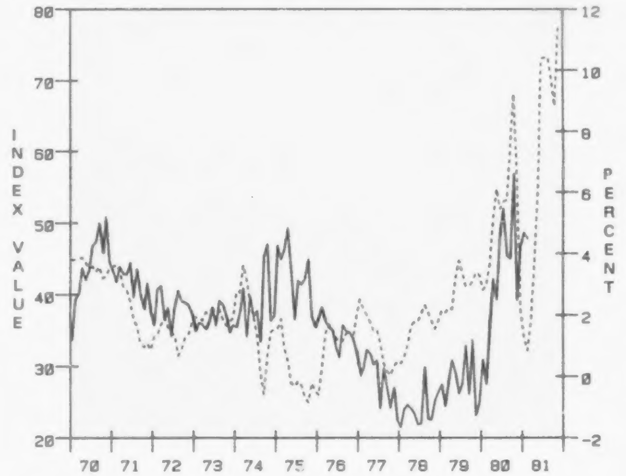
The weakness was not confined to the long-suffering metals, housing, airlines and auto industries. Poor earnings were also reported by such previously prosperous areas as high technology, because the demand for semi-conductors and business equipment waned. The outlook for profits continues to be mixed. On the one hand, they will be boosted by accelerated spending resulting from the personal tax cuts likely to take effect October 1. On the other hand, reported profits will be dampened by the accelerated depreciation schedules for business also contained in the tax cut package.

Corporate Casualties Climb

The persistently high level of interest rates was one of the reasons for many industries' poor performance. As the prime rate hovered around 20 per cent and inventories accumulated at the fastest quarterly pace in five years, financing costs—especially in the retail trade sector—skyrocketed. The high cost of money not only squeezed corporate balance sheets, but also significantly boosted the bankruptcy rate.

Commercial and industrial bankruptcies started their most recent upward climb in early 1980—about six months after real interest rates began to spike upward (see chart). Many U.S. corporations began to rely excessively on short-term borrowing thus leading to a marked deterioration of corporate balance sheets. Meanwhile, short-term interest rates reached historic highs during the period. Combined with the sluggish performance of the economy since second-quarter 1979 (Financial Digest—July 27, 1981), it is hardly surprising that corporate financial health has deteriorated. Failures reached a 13-year high in 1980, and liabilities rose to record levels.

INDEX OF BUSINESS FAILURES PER 10,000 FIRMS (LINE)
VS. 6-MO. LAGGED REAL PRIME RATE (DOT)



The most significant increases in bankruptcies during 1980 occurred in the commercial services sector and in the interest sensitive construction sector. However, during the first seven months of 1981, an increased number of bankruptcies was particularly evident among manufacturing establishments.

There appears to be a six-month lag between the change in "real" interest rates and the time when companies feel their full impact. According to Dun & Bradstreet, failures reached a peak in October, 1980, when they rose to 56.8 per 10,000 listed enterprises, responding to the high levels of interest rates that prevailed in early spring. They then

Manufacturers Hanover Trust Company
350 Park Avenue, New York, NY 10022

declined slightly, standing at 4.8 per 10,000 in February, 1981 (the latest available). This, in turn, was traceable to the decline in interest rates that occurred during late spring and early summer. However, early estimates show that the number of bankruptcies has increased substantially in recent months. During the first seven months of 1981, they are believed to have surged by an estimated 40 per cent compared with the same period a year ago. Since relatively high interest rates are likely to continue through yearend if not longer, corporate casualties may remain high well into 1982.

Another important contributor to the decline in profits in several key industries was the rise in labor costs due to increases gained in collective bargaining settlements during the April-June period. Despite the substantial easing in the rate of inflation—to 6½ per cent during the second quarter as measured by the personal consumption expenditures deflator—wage adjustments negotiated during the second quarter (excluding cost-of-living clauses) averaged 12.2 per cent for the first year of the contract, up sharply from nine per cent in the first quarter and 9.5 in all of 1980. Since the average life of these contracts exceeds 2½ years, these increases will be felt for some time to come, and could become a serious obstacle in any further curbing of inflation.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 7/22/81	$ Change Since Week Ago	Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies			
Owned Outright & RPs	133.284	+ 1.061	+ 1.218
Loans to Depository Inst.	1.730	+ .435	+ 1.375
Float	3.137	– .139	– 1.741
Total Reserve Bank Credit	148.834	+ 1.662	+ 5.918
Treasury Deposits with Federal Reserve Banks	3.106	– .301	+ .383
Currency Outside Banks	125.738	+ .861	+ 8.122
Member Bank Reserves:			
Required	41.350	+ .855	– 2.363
Excess (Deficiency)	.237	+ .108	+ .226
Total Reserves Held	41.587	+ .963	– 2.137
Net Borrowed Reserves	1.249	+ .330	+ .911
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	94.911	– 1.351	+13.051
		% Change Since Three Months Ago*	Year Ago
Monetary Aggregates †			
M-1A	360.0	0.0‡	– 3.8‡
M-1B	428.7	– 2.5‡	+ 8.0‡
M-2 (June '81)	1,749.5	+ 7.2	+ 10.1
L (April '81)	2,455.7	+ 7.9	+ 10.7

†Seasonally adjusted. *Seasonally adjusted annual rate. ‡ Four-week moving average.

New York Money Market

Offering Rates 7/31/81	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	14.40%	14.40%	13.95%
* Federal Agencies	15.00	16.00	16.50
* Project Notes—Taxfree (46% Taxable Equivalent)	13.89	14.54	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	17.70	17.75	17.40

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	17.25%	Aug.	17.10%
15- 29 days	17.25	Sep.	17.00
30- 59 days	17.38	Oct.	16.80
60- 89 days	16.00	Nov.	16.65
90-179 days	15.50	Dec.	16.40
180-239 days	15.00	Jan.	16.10
240-270 days	13.00		

‡Industrial Paper—Prime		†Federal Funds	
30- 89 days	17.13%	Effective Rate	17.50%
90-120 days	16.88		

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'81	$ 2,881	$ 2,853	$ 2,565
Gross National Product (1972 Dollars)*	2nd Q'81	$ 1,509	$ 1,516	$ 1,463
Percent Change, Annual Rate	2nd Q'81	– 1.9%	8.6%	– 9.9%
Change in Consumer Prices (all urban consumers)*	Jun '81	8.4%	8.4%	12.0%
Change in Producer Prices*	Jun '81	7.2%	4.8%	9.6%
Civilian Employment (Thousands of Persons)†	Jun '81	98,392	99,235	96,780
Unemployment as % of Civilian Labor Force†	Jun '81	7.3%	7.6%	7.5%
Personal Income*	Jun '81	$ 2,382	$ 2,368	$ 2,127
Leading Indicators Composite Index (1967=100)†	Jun '81n	133.8	135.5	123.9
Industrial Production Index (1967=100)†	Jun '81	152.7	152.8	141.5
Net Change in Consumer Installment Credit†	May '81	$ 1.35	$ 2.33	–$ 2.68
U.S. Merchandise Trade Balance†	Jun '81n	–$ 2.11	–$ 2.44	–$ 1.91
Plant and Equipment Expenditures*	3rd Q'81	$322.88(a)	$317.29(a)	$296.23
Private Housing Starts (Thousands of Units)*	Jun '81	1,032	1,159	1,184
New Construction Expenditures*	May '81	$ 237.3	$ 248.9	$ 221.6
Total Business Inventories†	May '81	$ 477.8	$ 474.6	$ 450.3
Total Business Sales†	May '81	$ 344.2	$ 345.7	$ 298.0

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

vis-a-vis the currencies of our major trading partners has depressed earnings of U.S. multinational companies. Since profits on foreign operations are first reported in the currency of that country, they translate into fewer dollars when the dollar is rising.

U.S. Trade Picture Is Mixed

But there is, as yet, no convincing evidence that the continuing strength of the dollar has damaged U.S. merchandise trade. On the one hand, the Census Bureau's release on U.S. merchandise trade (f.a.s. exports/c.i.f. imports) for June shows a slightly

billion in May and $3.5 billion in April. On the other hand, preliminary GNP data on merchandise exports suggest that in real terms there has been an intermittent decline since early last year. Thus, the evidence at this point is inconclusive.

There is little doubt that the strong dollar will hurt U.S. exports before long. At present, however, exports appear to be holding up well. In June, according to the Census Bureau, exports were up 5.3 per cent over May while imports grew by three per cent. Since January, exports have risen by 7.5 per cent over the same period in 1980 and imports have

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (7/15/81)	123,532	+ 1,184	+33,402
New York City (7/15/81)	29,640	+ 245	+ 8,270
Commercial Paper (7/15/81)	153,794	+ 2,261	+29,393

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/15/81)	180,797	− 741	+22,222
New York City (7/15/81)	53,038	− 506	+ 6,149

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/15/81)	443,358	− 334	+48,898
New York City (7/15/81)	106,408	− 8	+17,377

Financial Markets

	Friday 7/31/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	15.45%	− .15	+ 6.80
180-Day Bills†	16.10	+ .10	+ 7.26
Longest Bills†	15.95	+ .25	+ 7.03
Recent Issues:			
15⅞s 7/31/83	15.60	+ .04	
14s 6/30/85	15.75	+ .45	
14½s 5/15/91	14.65	+ .29	
13⅞s 5/15/11	13.87	+ .27	
Municipals:			
Bond Buyer–20 Bond Index* (7/30/81)	11.44%	+ .10	+ 2.85
Blue List Total ($ Million)	$ 869	− $ 43	− $ 63
30-Day Visible Supply ($ Million)	$1,598	− $ 77	− $ 607
Total	$2,467	− $120	− $ 607
Corporates:			
Moody's Aa Composite (7/30/81)	15.03%	− .09	+ 3.39
Money Mgr.–30-Day Supply ($ Million)	$7,501	− $286	+ $3,492
Stocks:			
Dow-Jones Averages:			
Industrials	952.34	+ 15.60	+ 17.54
Transportation	406.68	+ 4.51	+ 95.60
Utilities	109.59	+ 2.02	− .86
65 Stocks	371.63	+ 5.58	+ 34.17
Standard and Poor's 500 Stocks	130.92	+ 2.48	+ 9.71
N.Y.S.E. Composite Index	75.95	+ 1.35	+ 6.51
N.Y.S.E. Avg. Daily Vol. for Week (000's)	42,158	− 1,036	− 5,786

* 46% Taxable equivalent 21.19%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 7/31/81	Week Ago
Overnight	17.25%	18.75%
1 month	18.63	19.44
3 month	18.75	19.19
6 month	18.75	18.88
1 year	17.63	17.63
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	15.10%	15.05%
Long Term (7 to 15 yrs.)	15.00	15.00

FOREIGN EXCHANGE SPOT RATES

New York Opening (7/31/81)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02478	40.36
Canada	.8107	1.2335
Denmark	.1291	7.7438
France	.1712	5.8400
Germany	.4060	2.4632
Italy	.0008170	1224.00
Japan	.004180	239.25
Mexico	.04058	24.64
Netherlands	.3656	2.7355
Switzerland	.4683	2.1353
U.K.	1.8570	.5385

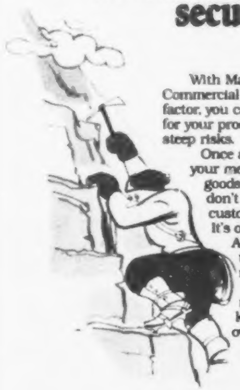
export growth to imports has not fallen over this six-month period is an indication that the U.S. is on the downward leg of the "J" curve.

But there is an upward leg to the "J" curve as well. And this suggests that we may soon see the United States trade deficit begin to increase. This is in line with the expectations of many private economists—not to mention the Commerce Department—who anticipate a higher trade deficit this year than last. The economies of many of our trading partners are in recession, reducing their demand for imports. At the same time, the performance of the United States economy has been relatively better so far this year, sustaining our demand for imports.

Petroleum imports, for example, skyrocketed almost 21 per cent last month over the preceding month. Some of the oil imports went to increase the government's strategic oil reserve—an optional import which can be discontinued if the trade deficit rises too sharply. But some of the increase was due to rising oil consumption. The price of oil, however, was stable at about $37 per barrel in May and June. This year the volume of oil imports has averaged close to 6.4 million barrels per day, down from seven million barrels per day in 1980. Further economy continues to soften.

Another important area of uncertainty is agricultural exports. Recent forecasts of another poor grain harvest in eastern Europe and the Soviet Union bode well for wheat, corn and soybean exports. So far this year, agricultural exports are an estimated 11 per cent ahead of last year in nominal terms, but when the effects of inflation are stripped away, volume growth has been small. It is probable that chemicals, aircraft and machinery will also show export growth this year. In June exports of manufactures were 14.9 per cent above the same month one year earlier. This trend is expected to continue throughout this year. But imports have also risen by the same percentage. If, as expected, the U.S. economy begins to grow again later this year, imports of manufactures may rise more rapidly and the expected decline in oil imports could be reversed.

Thus, in spite of a number of areas of uncertainty at this time, and anticipating that the present strength of the dollar will continue through the rest of 1981, exports will probably not grow sufficiently to reduce the trade gap and may, indeed, add a few billion dollars to last year's deficit. H



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Hanover
Financial
Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

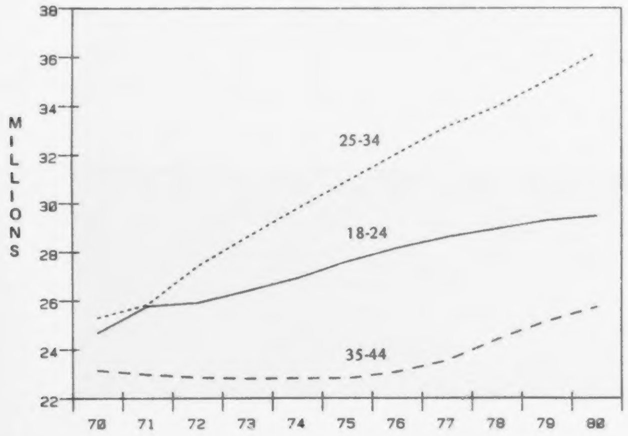
MONDAY, AUGUST 10, 1981 VOLUME XVIII, NUMBER 32

The "Baby Boom" Comes Of Age . . .

The effects of the post-World War II "baby boom" are being felt once again, as the baby boom babies marry and have their own children. This generation, now primarily concentrated in the 25 to 34 year-old age bracket, is the fastest growing segment of the population (see chart). Its share has increased to almost 17 per cent of the total population, compared with only 12.3 per cent ten years ago.

By 1985, this age group will add another 3.7 million members, or about ten per cent, to its ranks—a rate of increase twice as great as that for the total population. This has and will continue to have a profound impact on a variety of industries, but especially housing and housing-related durables, since this age bracket represents a prime house purchasing group. According to the U.S. League of Savings Banks, those households headed by someone between the ages of 25 and 34 bought almost one-half of all single family homes sold at the close of the last decade.

POPULATION TRENDS: 18 TO 24 AGE BRACKET (LINE)
VS. 25 TO 34 AGE BRACKET (DOT)
VS. 35 TO 44 AGE BRACKET (DASH)



At today's prices and mortgage interest rates, however, most potential first-time buyers cannot afford to buy. But if the past is any guide, the underlying demand for housing is mounting as buyers wait for interest rates to decline. Last spring and summer, each one percentage point drop in mortgage interest rates was associated with an approximately 100,000 unit rise in housing starts. Thus, if mortgage rates retreat once again, the demand for housing is expected to revive, giving a significant boost to new home construction and sales. With the new home will come increased expenditures for furniture, household appliances and other durables, all of which have been in a slump along with the housing industry.

. . . Auguring Well For Some Industries

The pent-up demand for housing may be intensified by the recent steady rise in the marriage rate. According to the National Center for Health Statistics, the number of marriages per 1,000 population was 10.9 in 1980, which was sharply above the 10.0 per 1,000 registered in 1976. The total number of people who were married in 1980—more than 4.8 million—was the largest on record, including the postwar peak in 1946. The average bride and groom are now older, have been working longer and therefore are probably more affluent. It is estimated that last year at least $12.5 billion was spent on weddings and wedding-related items.

Not only are more people marrying, there has been a noticeable increase in the fertility rate. After a protracted 20-year decline, the fertility rate (the number of babies born per 1,000 women 15-44 years old) bottomed out in 1976 and, after several false starts, has begun to rise again. Although the average family size continues to decline, many women who had postponed childbearing are having babies now. More young women in their thirties are having second thoughts about previous decisions not to have children, while others are opting for a family in addition to a career. Last year, 3.6 million babies were born, which was the highest yearly total in almost a decade.

This trend has already benefited manufacturers and retailers of maternity clothes, baby foods, drugs and childrens' clothing and furniture. In addition, many elementary schools, which were closed in the 1970s as the birth rate declined, may be able to reopen as early as the mid-1980s as enrollments begin to rise.

Manufacturers Hanover Trust Company
350 Park Avenue, New York, NY 10022

The Housing Recovery Remains Stalled

Although the maturing of the "baby boom" generation may yet provide some relief for the depressed housing industry, the combination of lofty mortgage interest rates and new home prices continues to flatten residential construction and sales. Housing starts plunged a further 11 per cent in June compared with month-earlier levels to a seasonally adjusted annual rate of 1.03 million units. This level is more than 20 per cent below total housing starts in 1980. New single family home sales also nosedived during the month, falling more than 17 per cent below the May level to a seasonally adjusted annual rate of only 408,000 units. Not surprisingly, with builders experiencing significant difficulties selling homes already on the market, new building permits issued for future construction dropped 16.4 per cent in June month-over-month, to a seasonally adjusted annual rate of less than one million units.

The most formidable obstacle to a sustained turnaround in the housing market is affordability. With mortgage interest rates hovering near the 17 per cent level and the median sales price of new homes sold standing at $71,600 in June, an ever-larger proportion of households has been priced out of the new home market. Even with a down payment of approximately 25 per cent on the median-priced

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 7/29/81	$ Change Since	
Reserve Bank Credit		Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	131.687	− 1.597	+ 2.883
Loans to Depository Inst.	1.978	+ .248	+ 1.348
Float	3.462	+ .232	+ .106
Total Reserve Bank Credit	147.426	− 1.501	+ 8.922
Treasury Deposits with Federal Reserve Banks	3.063	− .043	− .143
Currency Outside Banks	123.437	− 2.305	+ 7.332
Member Bank Reserves:			
Required	40.895	− .455	+ .403
Excess (Deficiency)	.621	+ .291	+ .312
Total Reserves Held	41.516	− .164	+ .715
Net Borrowed Reserves	1.099	− .057	+ .786
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	95.116	+ .205	+12.870

		% Change Since	
Monetary Aggregates †		Three Months Ago*	Year Ago
M-1A	361.3	− 5.4‡	− 4.0‡
M-1B	430.1	− 3.3‡	+ 7.8‡
M-2 (June '81)	1,749.1	+ 7.1	+ 10.1
L (April '81)	2,455.7	+ 7.9	+ 10.7

† Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 8/7/81	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	15.15%	15.10%	14.35%
* Federal Agencies	15.80	16.30	15.60
* Project Notes—Taxfree (46% Taxable Equivalent)	14.81	14.63	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	18.15	18.05	17.70

‡ Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	18.00%	Sep.	17.80%
15- 29 days	18.00	Oct.	17.30
30- 59 days	19.50	Nov.	17.20
60- 89 days	16.00	Dec.	17.00
90-179 days	15.00	Jan.	16.70
180-239 days	15.00	Feb.	16.50
240-270 days	13.00		

‡ Industrial Paper—Prime			
30- 89 days	17.88%	† Federal Funds	
90-120 days	17.40	Effective Rate	18.55%

‡ Discount basis.

* Subject to availability.

† Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'81	$ 2,881	$ 2,853	$ 2,565
Gross National Product (1972 Dollars)*	2nd Q'81	$ 1,509	$ 1,516	$ 1,463
Percent Change, Annual Rate	2nd Q'81	− 1.9%	8.6%	− 9.9%
Change in Consumer Prices (all urban consumers)*	Jun '81	8.4%	8.4%	12.0%
Change in Producer Prices*	Jun '81	7.2%	4.8%	9.6%
Civilian Employment (Thousands of Persons)†	Jul '81n	98,962	98,392	96,999
Unemployment as % of Civilian Labor Force†	Jul '81n	7.0%	7.3%	7.6%
Personal Income*	Jun '81	$ 2,382	$ 2,368	$ 2,127
Leading Indicators Composite Index (1967=100)†	Jun '81n	133.8	135.5	123.9
Industrial Production Index (1967=100)†	Jun '81	152.7	152.8	141.5
Net Change in Consumer Installment Credit†	May '81	$ 1.35	$ 2.33	−$ 2.68
U.S. Merchandise Trade Balance†	Jun '81n	−$ 2.10	−$ 2.44	−$ 1.91
Plant and Equipment Expenditures*	3rd Q'81	$322.88(a)	$317.29(a)	$296.23
Private Housing Starts (Thousands of Units)*	Jun '81	1,032	1,159	1,184
New Construction Expenditures*	Jun '81n	$ 236.2	$ 239.7	$ 218.5
Total Business Inventories†	May '81	$ 477.8	$ 474.6	$ 450.3
Total Business Sales†	May '81	$ 344.2	$ 345.7	$ 298.0

* Seasonally adjusted annual rate.

† Seasonally adjusted.

n-Newly reported figure.

a-Anticipated.

new home, principal and interest payments on a 30-year conventional mortgage contracted at 17 per cent would total about $785 per month, and absorb almost 45 per cent of gross median family income. One year ago, with average mortgage interest rates standing a shade above 13.25 per cent and the median-priced new home at $65,400, principal and interest payments would have totaled about $565 per month, absorbing slightly more than 30 per cent of gross median family income. Both levels are well above the traditionally prudent rule-of-thumb threshold of 25 per cent, and would soar even higher when property taxes and insurance are included.

Thus, the monthly principal and interest payment required to purchase a median-priced new home has jumped almost 40 per cent in the past year—a rate of rise more than three times the size of the gain in personal incomes during the period. As a result, the search for affordable housing has accelerated, especially among first-time home buyers. Mobile home shipments, for example, ran at a 255,000 unit seasonally adjusted annual rate in May, the latest month for which data are available (see chart on following page). Although this was 3.8 per cent below month-earlier levels, it was still a sizable 14 per cent above the calendar 1980 total. This stands in marked contrast with the trend in housing starts,

Short Term Paper Outstanding
(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (7/22/81)	124,412	+ 890	+34,063
New York City (7/22/81)	30,486	+ 846	+ 9,452
Commercial Paper (7/22/81)	155,593	+ 1,794	+31,553

Bank Loans
(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/22/81)	180,505	– 265	+22,026
New York City (7/22/81)	52,222	– 816	+ 5,324

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/22/81)	441,644	– 1,687	+48,369
New York City (7/22/81)	104,366	– 2,042	+16,148

Financial Markets

	Friday 8/7/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	16.02%	+ .57	+ 7.46
180-Day Bills†	16.58	+ .48	+ 7.92
Longest Bills†	16.41	+ .46	+ 7.77
Recent Issues:			
$15\frac{7}{8}$s 7/31/83	15.83	+ .23	
14s 6/30/85	15.41	– .34	
$14\frac{7}{8}$s 8/15/91	14.70	NA	
$13\frac{7}{8}$s 5/15/11	14.07	+ .20	
Municipals:			
Bond Buyer–20 Bond Index* (8/6/81)	11.63%	+ .19	+ 3.02
Blue List Total ($ Million)	$ 804	– $ 65	+ $ 15
30-Day Visible Supply ($ Million)	$2,217	+ $619	+ $ 220
Total	$3,021	+ $554	+ $ 235
Corporates:			
Moody's Aa Composite (8/6/81)	15.32%	+ .29	+ 3.40
30-Day Supply ($ Million)	$7,651	+ $150	+ $3,374
Stocks:			
Dow-Jones Averages:			
Industrials	942.54	– 9.80	– 12.15
Transportation	405.55	– 1.13	+ 89.38
Utilities	110.00	+ .41	– .37
65 Stocks	369.50	– 2.13	+ 25.80
Standard and Poor's 500 Stocks	131.75	+ .83	+ 8.14
N.Y.S.E. Composite Index	76.58	+ .63	+ 5.77
N.Y.S.E. Avg. Daily Vol. for Week (000's)	44,824	+ 2,666	– 5,954

* 45% Taxable equivalent 21.54%.

† Bond equivalent.

International Rates

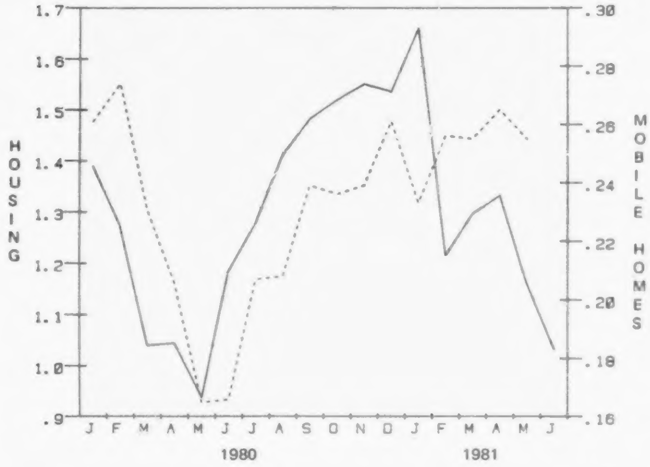
EURODOLLAR DEPOSIT RATES (bid)	Friday 8/7/81	Week Ago
Overnight	18.75%	17.25%
1 month	19.06	18.63
3 month	19.13	18.75
6 month	19.06	18.75
1 year	18.00	17.63
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	15.00%	15.10%
Long Term (7 to 15 yrs.)	14.90	15.00

FOREIGN EXCHANGE SPOT RATES

New York Opening (8/7/81)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02409	41.51
Canada	.8055	1.2414
Denmark	.1259	7.9453
France	.1650	6.0600
Germany	.3944	2.5355
Italy	.0007986	1252.20
Japan	.004210	237.55
Mexico	.04054	24.67
Netherlands	.3554	2.8135
Switzerland	.4575	2.1860
U.K.	1.7892	.5589

which in the same month ran at a seasonally adjusted annual rate 10.3 per cent below the total 1980 housing start level.

HOUSING STARTS (LINE) VS. MOBILE HOME SHIPMENTS (DOT)
(MILLIONS OF UNITS)



What is more, while the growth of new mortgage commitments has slowed dramatically, the growth of mobile home credit has accelerated. During the January-May, 1981 period, total credit extensions for the acquisition of mobile homes was almost 15 per cent above the amount extended during the last five months of 1980. This rate of growth compares with an almost 30 per cent decline in the level of new mortgage commitments extended by the nation's savings and loan associations between the same two periods.

LDC Debt Revisited

Last week's meeting of 22 foreign ministers in Mexico has again focused attention on the growing problem of the external indebtedness of the less developed countries (LDCs). This meeting, which established the agenda for the meeting of the heads of the 22 nations in October, gave a prominent place on that agenda to the issue of financing the LDC external debt.

Several factors have made the LDC debt burden particularly important this year. In addition to the growing size of the debt itself which is now estimated to be close to $500 billion, there is the problem of rising interest rates which increase the cost of servicing the debt. A substantial portion of the LDC's foreign liabilities, particularly the part owed to commercial banks, was borrowed under floating interest rates. These rates, usually adjustable every three or six months, rapidly reflect changes in international money market costs. This year, for example, the non-oil developing countries will pay an estimated $34 billion in interest on their medium and long-term external debt alone. When the amortization costs for these debts are added (about $63 billion) the total cost of debt service rises to $97 billion, an increase of 28 per cent over the $75 billion LDC debt service cost in 1980.

Adding to the difficulties created by this rising debt service burden is the recent precipitous fall in commodity prices. Exports are the major source of foreign exchange needed by LDCs to meet their external obligations. Many LDCs are heavily dependent upon one or a few basic commodities for the bulk of their exports. Commodity export prices (excluding oil) have fallen an average of about 11 per cent so far in 1981 with some commodities such as coffee and cocoa showing particular weakness (Financial Digest—July 6, 1981).

The prospects for improved export earnings for the LDCs this year are less than bright. Low growth or recession in many of the industrialized countries—the principal customers for LDC exports—is expected to continue through the end of 1981 with sluggish recovery sometime next year. Hence, in addition to depressed export prices the volume of exports will show little growth this year either. At the same time, high energy and labor costs in the industrial countries assure a continuance of high prices for their exports to the LDCs.

The response of the LDCs to these problems has been clear. The level of international reserves of the LDCs fell from $86 billion at the end of 1980 to $82.4 billion at the end of March, 1981. Further, publicly announced medium-term Euro-credits extended to non-oil LDCs were running at an annual rate of about $38 billion in the second quarter of this year compared with $27 billion in 1980. The International Monetary Fund has also increased its lending activities utilizing its recently expanded financial resources.

Faced with the prospects of high import costs, high interest rates and deteriorating export earnings the LDCs can be expected to place heavy emphasis on their need for greater financial assistance at the forthcoming meeting in October.

8/25/81

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The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, AUGUST 17, 1981

VOLUME XVIII, NUMBER 33

Slow Growth Ahead

Several important gauges of economic activity have declined recently, indicating that the pace of business output continues to fade. One of the more significant was an additional 1.3 per cent drop in the index of leading economic indicators in June compared with May. The index has been drifting downward since reaching its peak in November, 1980 and has now fallen a total of 2.1 per cent. However, this retreat does not necessarily signal that we are in a recession—yet.

For one thing, the peak-to-trough drop in the index of leading economic indicators has so far been much more modest than that associated with any of the seven post-World War II recessions. Although it may be misleading to assume that the trough in the leading indicators has already been reached—especially since high interest rates are still stifling the housing sector as well as exerting downward pressure on equity and commodity prices—the decline to date is only one-fifth of that which has occurred on average during the seven postwar recessions. It is also well below the 7.4 per cent decline in the index associated with the 1960-61 recession—the smallest postwar peak-to-trough drop associated with recession. The greatest slide occurred during the 1973-75 recession when the index collapsed by 20.2 per cent.

The June drop in the leading indicators was confined to a few areas. More than one-half of the decline resulted from a 16 per cent drop in the number of permits issued for future housing construction. An additional 40 per cent of the fall was accounted for by a decline in the prices of sensitive commodities. However, a large part of the decrease in commodity prices probably reflects reduced speculative activity and more cautious inventory accumulation— both of which are due primarily to high interest rates, rather than a significant fading in industrial demand for these materials.

Similarly, the decline in the index of coincident indicators—which moves in tandem with economic activity—does not yet signal a recession. Although this index has now been declining for four consecutive months, the monthly contractions during the March-June period have so far been significantly smaller than those registered in any of the postwar recessions. They have averaged only 0.15 per cent per month, less than one-fifth the 0.8 per cent average monthly drop in the index of coincident indicators which occurred during the preceding seven recessions.

Are Interest Rates Responsible?

As a result of the upturn in consumer spending in June, installment debt outstanding rose a seasonally adjusted $1.93 billion during the month. It was paced by a sharp rise in outstanding revolving credit which includes the use of credit cards at retailers, gasoline companies and commercial banks as well as overdraft checking privileges. Although this increase was somewhat stronger than May's $1.35 billion gain, it was substantially weaker than the increases registered during the preceding three months, when it was boosted by the rebate-stimulated rise in outstanding auto credit. Since the withdrawal of the auto rebates, sales have been subdued despite the stepped-up efforts of some automobile manufacturers to subsidize interest rates.

Unlike mortgage payments, however, monthly automobile payments are only modestly affected by fluctuating interest rates. For example, during the first half of 1981, the average price of an automobile sold domestically, including imports, was about $8,250. After a typical down payment of 15 per cent, principal and interest payments on a four-year auto loan contracted at 16 per cent (the average rate to date) would total almost $200 per month. In 1978, when automobile sales surpassed 11 million units, the average interest rate charged on an auto loan was a shade above 11 per cent and the average price of an automobile was $6,470. At that time, principal and interest payments would have totaled about $140 per month on a four-year auto loan.

Thus, in the past two and one-half years, the monthly payment required to finance the average priced new car has risen by about $60, or more than 40 per cent. But of this increase, less than one-third of the rise is due to the five percentage point

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increase in average interest rates. More than two thirds was due to increased sales prices. In fact, at current interest rates and prices, each one percentage point fluctuation in the interest rate results in only a $3.50 change in the monthly payment.

In order to reduce the burden of ever-escalating monthly payments, auto creditors have extended repayment periods. While in 1970 the average loan was for less than three years, in 1981 it is close to four years. For a $7,000 auto loan contracted at 16 per cent, extending the repayment term from three to four years reduces the average monthly principal and interest payment by almost $50—more than offsetting the monthly impact of the escalation in interest rates which has occurred since 1978.

It seems, therefore, that expecting a drop in interest rates alone to trigger a revival in auto sales may be too optimistic. Rather, potential buyers would be much more positively affected in the short run by a slower rise in sales prices, more rapid personal incomes growth or substantial rebates—as evidenced by the favorable sales outcome when they were in effect earlier this year.

Employment Improves Again

Although the average workweek at the nation's factories declined by two-tenths of an hour in June month-over-month and a further one-tenth in July,

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 8/5/81	$ Change Since	
		Week Ago	Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	131.966	+ .279	+ 4.821
Loans to Depository Inst.	1.118	− .860	+ .291
Float	2.737	− .430	− 1.258
Total Reserve Bank Credit	145.774	− 1.472	+ 7.802
Treasury Deposits with Federal Reserve Banks	2.961	− .102	+ .309
Currency Outside Banks	123.838	+ .397	+ 7.027
Member Bank Reserves:			
Required	40.392	− .503	+ .633
Excess (Deficiency)	.378	− .071	− .232
Total Reserves Held	40.770	− .574	− .401
Net Borrowed Reserves	.513	− .758	+ .304
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	94.020	− 1.096	+ 9.670

		% Change Since	
Monetary Aggregates†		Three Months Ago*	Year Ago
M-1B	429.9	− 4.1‡	+ 7.1‡
M-2 (July '81)	1,761.0	+ 5.3	+ 9.1
M-3 (June '81)	2,075.3	+ 9.7	+ 12.1
L (May '81)	2,476.0	+ 7.2	+ 11.0

†Seasonally adjusted.

*Seasonally adjusted annual rate.

‡Four-week moving average.

New York Money Market

Offering Rates 8/14/81	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	15.10%	15.15%	15.30%
* Federal Agencies	16.70	17.00	15.80
* Project Notes—Taxfree (46% Taxable Equivalent)	14.72	15.19	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	18.00	18.05	17.00

‡Finance Company Paper—Prime	
5- 14 days	17.50%
15- 29 days	17.62
30- 59 days	17.62
60- 89 days	16.00
90-179 days	16.50
180-239 days	14.00
240-270 days	13.00

‡* Bankers' Acceptances	
Sep.	17.60%
Oct.	17.35
Nov.	17.05
Dec.	16.90
Jan.	16.70
Feb.	16.30

‡Industrial Paper—Prime	
30- 89 days	17.50%
90-120 days	17.12

†Federal Funds Effective Rate 17.45%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'81	$ 2,881	$ 2,853	$ 2,565
Gross National Product (1972 Dollars)*	2nd Q'81	$ 1,509	$ 1,516	$ 1,463
Percent Change, Annual Rate	2nd Q'81	− 1.9%	8.6%	− 9.9%
Change in Consumer Prices (all urban consumers)*	Jun '81	8.4%	8.4%	12.0%
Change in Producer Prices*	Jul '81n	4.8%	7.2%	20.4%
Civilian Employment (Thousands of Persons)†	Jul '81	98,962	98,392	96,999
Unemployment as % of Civilian Labor Force†	Jul '81	7.0%	7.3%	7.6%
Personal Income*	Jun '81	$ 2,382	$ 2,368	$ 2,127
Leading Indicators Composite Index (1967=100)†	Jul '81	133.8	135.5	123.9
Industrial Production Index (1967=100)†	Jul '81n	153.4	152.9	140.4
Net Change in Consumer Installment Credit†	Jun '81n	$ 1.93	$ 1.35	−$ 2.04
U.S. Merchandise Trade Balance†	Jun '81	−$ 2.10	−$ 2.44	−$ 1.91
Plant and Equipment Expenditures*	3rd Q'81	$322.88(a)	$317.29(a)	$296.23
Private Housing Starts (Thousands of Units)*	Jun '81	1,032	1,159	1,184
New Construction Expenditures*	Jun '81	$ 236.2	$ 239.7	$ 218.5
Total Business Inventories†	Jun '81n	493.5	490.3	464.2
Total Business Sales†	Jun '81n	353.0	349.2	305.3

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

employers have not yet reduced their payrolls. On the contrary, the overall employment situation improved substantially in July as employment rose, unemployment declined and the unemployment rate—at seven per cent—reached a 15-month low. Total employment rose 0.6 per cent, or by 570,000 workers, to a seasonally adjusted 99 million, paced by employment gains in the service sector. After a decline in June, employment in this area rose by 265,000 in July with retail trade employment expanding vigorously.

The number of unemployed persons, in contrast, decreased a further 3.6 per cent in July, or by 282,000, after falling 4.7 per cent in June. The reduction in the number of unemployed apparently reflects the efforts by employers to hold on to their workers, anticipating that the current slowdown will be brief and that the economy will soon be boosted by the just-approved tax package—to go into effect in October—and by further increases in Federal defense spending. However, the employment situation is still expected to worsen before it gets better. Although inventory levels are not very high by historical standards, there has been a substantial involuntary accumulation in the second quarter which will have to be worked off (Financial Digest—July 27, 1981). With final sales sluggish, the paring of existing inventories may eventually affect new factory orders, industrial production and employment adversely.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (7/29/81)	126,528	+ 2,105	+37,465
New York City (7/29/81)	30,880	+ 394	+10,561
Commercial Paper (7/29/81)	154,297	– 1,296	+31,846

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/29/81)	180,479	– 36	+22,071
New York City (7/29/81)	52,231	+ 10	+ 5,023

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (7/29/81)	442,601	+ 975	+48,765
New York City (7/29/81)	105,149	+ 802	+16,326

Financial Markets

	Friday 8/14/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	15.27%	– .75	+ 6.21
180-Day Bills†	15.35	– 1.23	+ 5.70
Longest Bills†	14.55	– 1.86	+ 4.69
Recent Issues:			
$15^{7}/_{8}$s 7/31/83	16.22	+ .39	
14s 6/30/85	15.56	+ .15	
$14^{7}/_{8}$s 8/15/91	14.96	+ .26	
$13^{7}/_{8}$s 5/15/11	14.75	+ .68	
Municipals:			
Bond Buyer–20 Bond Index* (8/13/81)	11.94	+ .31	+ 3.41
Blue List Total ($ Million)	$ 771	– $ 33	– $ 7
30-Day Visible Supply ($ Million)	$2,008	– $209	+ $ 586
Total	$2,779	– $242	+ $ 579
Corporates:			
Moody's Aa Composite (8/13/81	15.20%	– .12	+ 3.14
30-Day Supply ($ Million)	$7,407	– $244	+ $3,796
Stocks:			
Dow-Jones Averages:			
Industrials	936.93	– 5.61	– 29.79
Transportation	408.87	+ 3.32	+ 87.50
Utilities	114.67	+ 4.67	+ 3.64
65 Stocks	371.76	+ 2.26	+ 23.69
Standard and Poor's 500 Stocks	132.49	+ .74	+ 6.77
N.Y.S.E. Composite Index	77.00	+ .42	+ 4.93
N.Y.S.E. Avg. Daily Vol. for Week (000's)	46,038	+ 1,214	– 1,366

* 46% Taxable equivalent 22.11%.

† Bond equivalent.

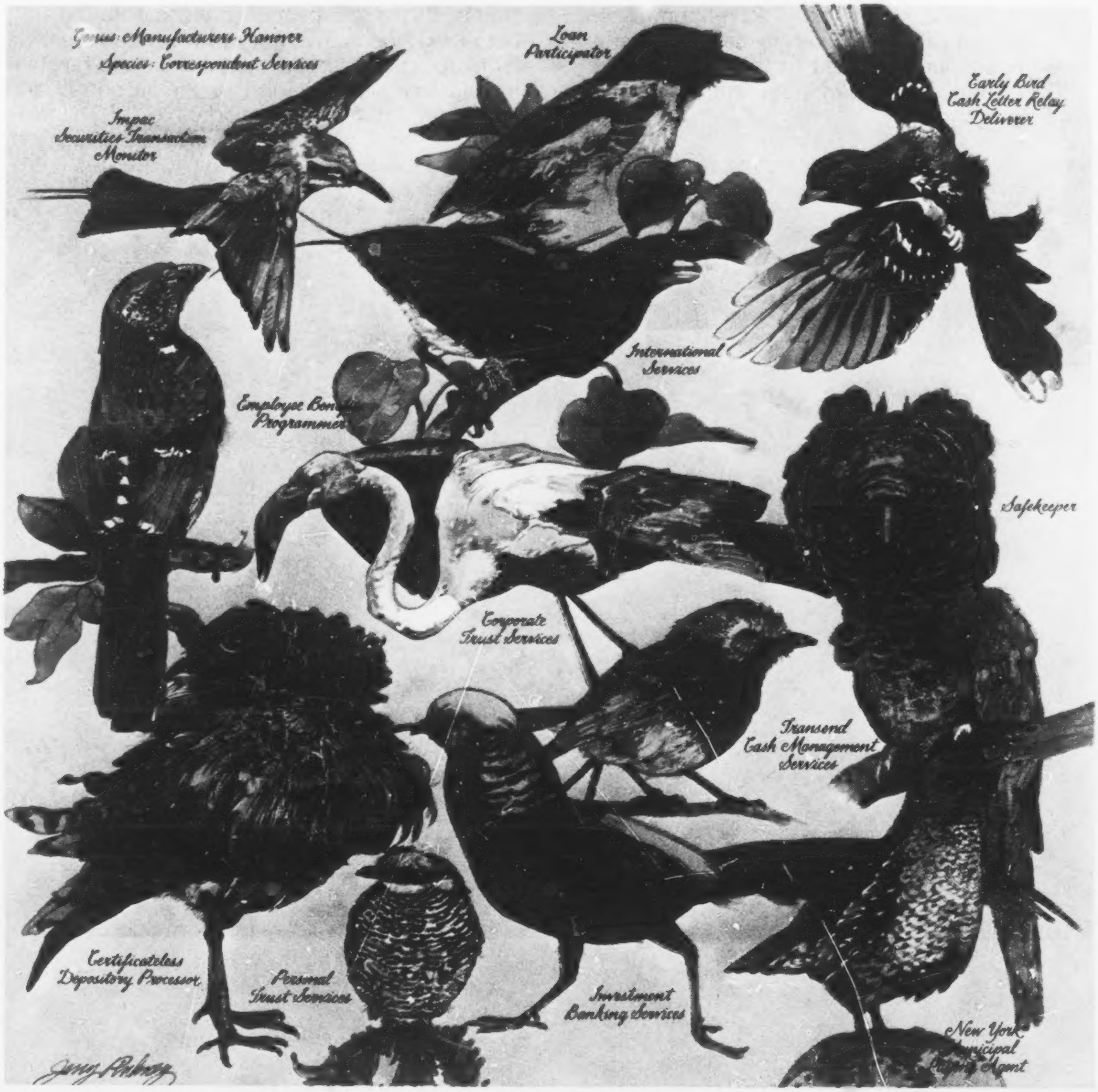
International Rates

	Friday 8/14/81	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	18.13%	18.75%
1 month	18.63	19.06
3 month	18.88	19.13
6 month	18.94	19.06
1 year	17.81	18.00
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	15.00%	15.00%
Long Term (7 to 15 yrs.)	14.90	14.90

FOREIGN EXCHANGE SPOT RATES

New York Opening (8/14/81)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02425	41.24
Canada	.8119	1.2317
Denmark	.1253	7.9800
France	.1658	6.0300
Germany	.3972	2.5175
Italy	.0007994	1250.90
Japan	.004313	231.85
Mexico	.04034	24.79
Netherlands	.3568	2.8025
Switzerland	.4600	2.1740
U.K.	1.8058	.5538

THE CORRESPONDENT WATCHER'S GUIDE.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The Manufacturers Hanover
Financial Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, AUGUST 24, 1981
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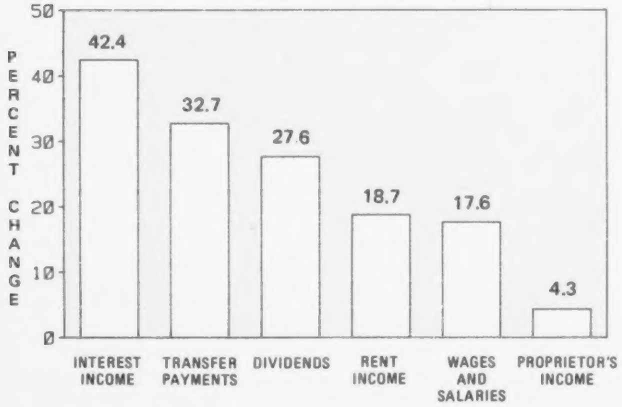
Personal Income Strengthens

The sizable increase in personal income in July is another indication that the economy, although still weak, may avoid slipping into a recession. Personal income rose a seasonally adjusted 1.6 per cent last month compared with June—the largest monthly advance in a year. However, personal income usually receives a large boost every July as a result of annual cost-of-living adjustments to government transfer payments. This time, almost one-half of the income gain stemmed from increased transfer payments, especially Social Security benefits which rose about $15 billion.

PERCENT CHANGE IN THE SIX MAJOR COMPONENTS OF PERSONAL INCOME (SEPTEMBER, 1979 TO JULY, 1981)



While the sharp rise in transfer payments has been widely publicized, relatively little attention has been paid to the even faster growth of interest income. Although high interest rates have flattened residential construction, contributed to the slump in auto sales and dampened business investment, they have also boosted the incomes of numerous households. Since September, 1979—the month immediately preceding the de-emphasis of interest rate stability as the primary monetary policy objective—interest rates and income have soared. Interest income has risen by more than 42 per cent during this 22-month period, while its share of the total has expanded from 11 per cent in September, 1979 to almost 13 per cent currently. This compares with a 33 per cent increase in transfer payments (see chart above).

Recent improvements in the employment situation boosted wages and salaries—the largest component of personal income. With total employment growing by 0.6 per cent in July month-over-month, unemployment declining and the average workweek remaining unchanged, wages and salaries expanded nearly 0.7 per cent. Although this rate of growth was more than double that registered in June, it was still below the average monthly increase of 0.8 per cent posted during the first five months of 1981.

The Interest Rate Outlook . . .

Short- and long-term interest rates fluctuated within relatively narrow ranges during the past month, reflecting the largely offsetting effects of weakening demand-side fundamentals and continued monetary policy tightness. During the four weeks ending August 19, short-term interest rates increased by an average of 5 to 55 basis points, despite the modest easing of the Federal funds rate. Top-quality corporate yields increased from 25 to 55 basis points during the period, and long-term U.S. government, Federal agency and municipal bond rates all moved higher.

Although the fundamentals of a weakening economy and moderating rates of inflation still suggest lower interest rates in coming weeks, a persistently restrictive Federal Reserve monetary policy and hefty Treasury and corporate borrowing requirements do not. Since little change is expected in the policy stance of the Federal Reserve until all the monetary aggregates are expanding at annual rates well within their 1981 growth target boundaries, any interest rate declines will have to be prompted by a downturn in the demand for funds, rather than increased supplies from the central bank.

In the economy, the pace of overall activity remains weak, with little likelihood that the third quarter numbers will be significantly better than those posted in the second. Among the more recent indicators of the slump into which the economy has fallen was a further drop in the index of leading economic indicators in June (Financial Digest—August 17, 1981) the continuing sluggish pace of new automobile sales, the depressed level of housing starts and a sharp deterioration in U.S. export

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prospects abroad—as reflected in the now five consecutive monthly declines in new export orders for manufacturers' durable goods.

But despite the weakness in the housing and auto industries, it is still not yet clear that the economy is in another recession—and that the demand for funds is about to decline sharply. Personal income, total employment and industrial production continue to expand, ensuring that consumer spending will probably not weaken significantly any time soon. Retail sales rose strongly in July, increasing 1.3 per cent month-over-month (following a 1.7 per cent gain in June) while consumer installment credit outstanding jumped a seasonally adjusted $1.93 billion in June. What is more, the current economic weakness may be extremely short-lived. Later this year, the cash flow bolstering impact of recently enacted personal and business tax cuts should boost household and business spending even further. This, together with sharply higher levels of defense spending, could prompt positive economic growth toward year-end.

. . . Is Still For Lower Rates . . .

The rate of inflation continues to moderate and seems to have stabilized on an approximately five to eight per cent plateau. Both the producer and consumer price indexes are now advancing at annual

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 8/12/81	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	131.661	– .305	+ 5.184
Loans to Depository Inst.	1.271	+ .153	+ .877
Float	3.601	+ .822	– 1.780
Total Reserve Bank Credit	146.168	+ .384	+ 8.086
Treasury Deposits with Federal Reserve Banks	3.614	+ .653	+ .275
Currency Outside Banks	124.597	+ .752	+ 7.153
Member Bank Reserves:			
Required	39.882	– .510	+ .577
Excess (Deficiency)	.222	– .157	+ .128
Total Reserves Held	40.104	– .667	+ .705
Net Borrowed Reserves	.826	+ .314	+ .532
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	91.507	– 2.513	+ 6.558

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M-1B	434.7	– 2.6‡	+ 7.1‡
M-2 (July '81)	1761.0	+ 5.3	+ 9.1
M-3 (July '81)	2090.8	+ 9.0	+ 11.6
L (May '81)	2476.0	+ 7.2	+ 11.0

† Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 8/21/81	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	15.20%	15.20%	14.30%
* Federal Agencies	16.25	16.50	16.00
* Project Notes–Taxfree (46% Taxable Equivalent)	14.54	15.83	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	17.95	17.95	18.15

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	17.75%	Sep.	17.40%
15 29 days	17.50	Oct.	17.25
30- 59 days	17.50	Nov.	17.00
60- 89 days	16.75	Dec.	16.90
90-179 days	15.75	Jan.	16.70
180-239 days	15.75	Feb.	16.35
240-270 days	14.00		

‡ Industrial Paper–Prime		† Federal Funds	
30- 89 days	17.38%		
90-120 days	17.13	Effective Rate	17.55%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'81	$ 2,882	$ 2,853	$ 2,565
Gross National Product (1972 Dollars)*	2nd Q'81	$ 1,507	$ 1,516	$ 1,463
Percent Change, Annual Rate	2nd Q'81	– 2.4%	8.6%	– 9.9%
Change in Consumer Prices (all urban consumers)*	Jun '81	8.4%	8.4%	12.0%
Change in Producer Prices*	Jul '81	4.8%	7.2%	20.4%
Civilian Employment (Thousands of Persons) †	Jul '81	98,962	98,392	96,999
Unemployment as % of Civilian Labor Force †	Jul '81	7.0%	7.3%	7.6%
Personal Income*	Jul '81n	$ 2,422	$ 2,385	$2,161
Leading Indicators Composite Index (1967=100) †	Jun '81	133.8	135.5	123.9
Industrial Production Index (1967=100) †	Jul '81	153.4	152.9	140.4
Net Change in Consumer Installment Credit †	Jun '81	$ 1.93	$ 1.35	–$ 2.04
U.S. Merchandise Trade Balance †	Jun '81	–$ 2.10	–$ 2.44	–$ 1.91
Plant and Equipment Expenditures*	3rd Q'81	$322.88(a)	$317.29(a)	$296.23
Private Housing Starts (Thousands of Units)*	Jul '81n	1,055	1,021	1,277
New Construction Expenditures*	Jun '81	$ 236.2	$ 239.7	$ 218.5
Total Business Inventories †	Jun '81	$ 493.5	$ 490.3	$ 464.2
Total Business Sales †	Jun '81	$ 353.0	$ 349.2	$ 305.3

* Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. a-Anticipated.

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rates well below the double-digit level. With each passing month of single-digit inflation, it becomes more likely that inflation expectations will begin to move into better alignment with the price statistics, eventually producing significant money and bond market rallies.

Until then, the rate of inflation is not expected to spike substantially higher any time soon. Prices paid to farmers dropped again in July, marking the seventh consecutive month in which agricultural prices have either remained flat or declined. This suggests that the anticipated big bulge in food prices may still be a few months away—although the food price component of the producer price index did begin to creep higher in July. Energy price increases should also remain subdued, as long as global demand for petroleum products remains weak. Similarly, housing cost increases may abate once the rise in mortgage interest rates and home prices levels off. More important, however, is the possibility that if the modest rates of inflation registered in recent months persist, and are then translated into lower wage settlements in 1982, this could signal a permanent break in the inflation rate spiral of recent years.

The slowing of real economic activity, together with moderating rates of inflation, should eventually

Short Term Paper Outstanding
(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (8/5/81)	127,463	+ 859	+37,597
New York City (8/5/81)	30,785	– 95	+10,281
Commercial Paper (8/5/81)	154,371	+ 227	+31,573

Bank Loans
(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/5/81)	184,233	+ 3,765	+24,502
New York City (8/5/81)	54,286	+ 2,055	+ 6,652

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/5/81)	448,854	+ 6,273	+48,297
New York City (8/5/81)	108,176	+ 3,027	+17,089

Financial Markets

	Friday 8/21/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	16.20%	+ .93	+ 7.14
180-Day Bills†	16.85	+ 1.50	+ 7.20
Longest Bills†	16.56	+ 2.01	+ 6.70
Recent Issues:			
$16\frac{1}{4}$s 8/31/81 (When Issued)	16.20	NA	
14s 6/30/85	15.75	+ .19	
$14\frac{7}{8}$s 8/15/91	14.90	– .06	
$13\frac{7}{8}$s 5/15/11	14.65	– .10	
Municipals:			
Bond Buyer–20 Bond Index* (8/20/81)	11.94%	–0–	+ 3.41
Blue List Total ($ Million)	$ 800	+ $ 29	+ $ 22
30-Day Visible Supply ($ Million)	$1,983	– $ 25	+ $ 561
Total	$2,783	+ $ 4	+ $ 583
Corporates:			
Moody's Aa Composite (8/20/81)	15.37%	+ .17	+ 3.31
30-Day Visible Supply ($ Million)	$7,592	+ $185	+ $3,981
Stocks:			
Dow-Jones Averages:			
Industrials	920.57	– 16.36	– 46.15
Transportation	395.79	– 13.08	+ 74.42
Utilities	112.73	– 1.94	+ 1.70
65 Stocks	363.56	– 8.20	+ 15.49
Standard and Poor's 500 Stocks	129.23	– 3.26	+ 3.51
N.Y.S.E. Composite Index	75.10	– 1.90	+ 3.03
N.Y.S.E. Avg. Daily Vol. for Week (000's)	40,764	– 5,274	– 6,640

* 46% Taxable equivalent 22.11%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 8/21/81	Week Ago
Overnight	18.00%	18.13%
1 month	18.38	18.63
3 month	18.63	18.88
6 month	18.63	18.94
1 year	17.75	17.81
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	14.95%	15.00%
Long Term (7 to 15 yrs.)	14.90	14.90

FOREIGN EXCHANGE SPOT RATES

New York Opening (8/21/81)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02447	40.86
Canada	.8274	1.2086
Denmark	.1290	7.7530
France	.1694	5.9035
Germany	.4061	2.4623
Italy	.08130	1230.00
Japan	.004380	228.30
Mexico	.04032	24.80
Netherlands	.3657	2.7345
Switzerland	.4673	2.1400
U.K.	1.8660	.5359

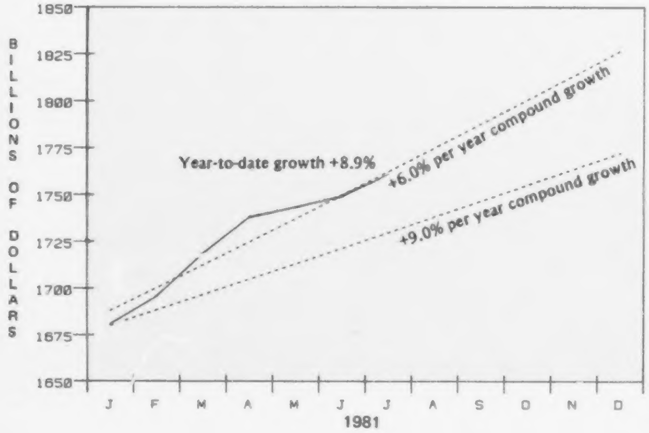
result in some easing in the growth of short-term business credit demands. Although short-term loan demand did fade considerably in July, much of this softening was reversed in early August. Commercial and industrial loans outstanding at large weekly reporting banks rose a seasonally adjusted $3.4 billion during the week ending August 5, and at a more than 20 per cent, seasonally adjusted annual rate over the past 13 weeks. However, more than $2 billion of the increase occurred at New York City and Chicago banks, strongly indicating that much of the rise was due to merger- and acquisition-related loans—which could be transitory.

Nonfinancial corporate issues of commercial paper, in contrast, have slowed substantially, rising a seasonally adjusted $5 million during the four weeks ending August 5. This compares with an almost $2.6 billion gain in May and June. Still, before interest rates can resume their irregular descent, the growth in short-term credit demands will have to fade much further.

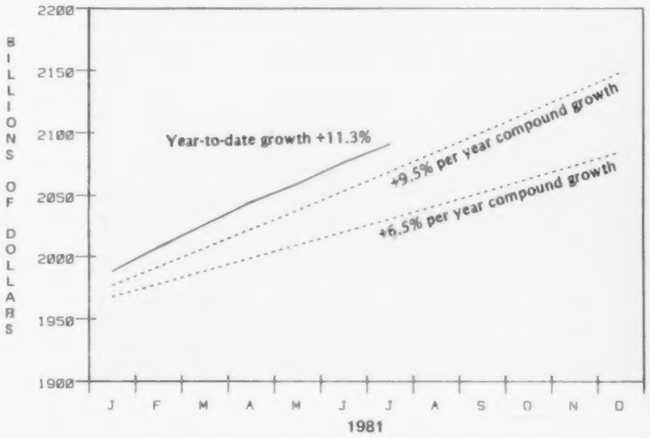
. . . But The Descent Will Be Gradual

While the slowdown in the economy and the rate of inflation should be prompting somewhat lower interest rates, they remain stubbornly high. Perhaps most important, this reflects the continuing firm grip on the monetary reins exercised by the Federal Reserve—a policy stance which is unlikely to be altered any time soon. While the growth of nonborrowed reserves has accelerated and pressures on bank reserve positions have eased slightly, it is unlikely that an abrupt and clear-cut loosening of the monetary reins is either underway or imminent.

MONEY SUPPLY, M-2



MONEY SUPPLY, M-3



Although the year-to-date growth of M-1B is still well below its 1981 lower target boundary of six per cent, the expansion of the broader monetary aggregates, M-2 and M-3, remains either near the top or well above their respective 1981 upper growth target boundaries (see charts on this page). Their growth is indicative of the still sizable volume of liquidity in the financial system which, if translated into stepped-up demand for goods and services, could pose a major threat to price stability. As a result, while the subdued growth of M-1B and the weak pace of economic activity must be cause for some concern at the Federal Reserve, the necessity of restricting the growth of M-2 and M-3 is probably cause for an equal amount of concern.

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The Manufacturers
Hanover
Financial
Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

MONDAY, AUGUST 31, 1981
VOLUME XVIII, NUMBER 35

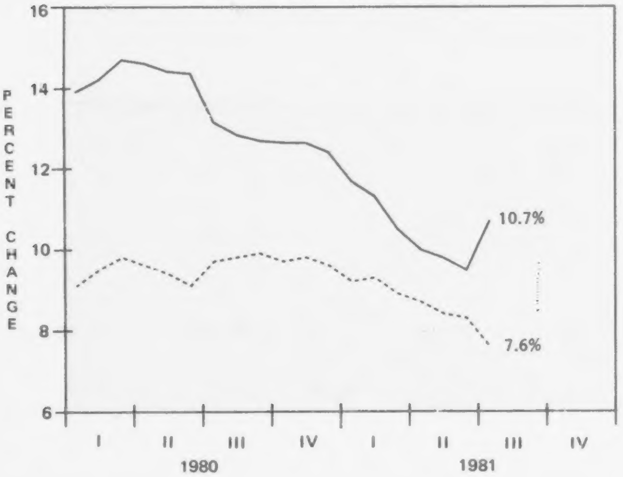
The Rebound In The Rate Of Inflation . . .

Although the July rise in the consumer price index represents the largest monthly increase in 16 months, it does not necessarily indicate that the moderating trend in the rate of inflation has come to a halt. In July, the CPI rose by 1.2 per cent, month-over-month, up from the 0.7 per cent increase posted in June. An examination of one of the fastest rising components of the CPI—housing—along with the way the index is put together, suggests that the rate of consumer price inflation in July may not have been as bad as it initially looked.

For one thing, the CPI appears to overstate the cost of housing which includes not only the cost of furnishing and maintaining a home, but also its financing—primarily house prices and mortgage interest rates. But since most people do not buy a home every month, or even every year, including increases in both mortgage interest rates and home purchase prices in the CPI causes it to overstate the effects of inflation on day-to-day household budgets.

CHART I

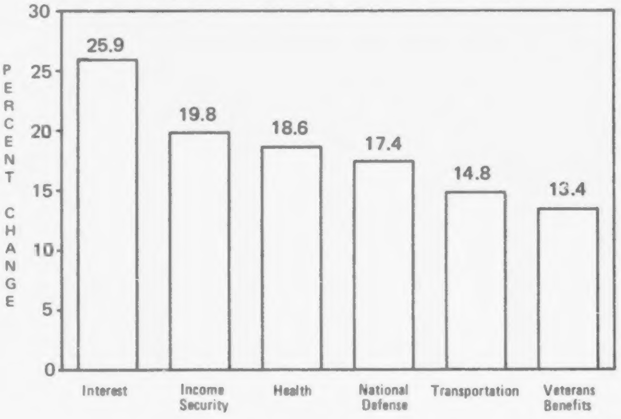
12-MONTH PERCENT CHANGE IN CPI (LINE)
VS. 12-MONTH PERCENT CHANGE IN CPI EXCLUDING
HOME PRICES AND FINANCING (DOT)



What is more, the CPI has not taken into account the steep slump in home sales in recent months. Since so few people have been buying homes recently, the relative share, or "weight," of the home financing component in the index (which is based on 1972-1973 spending patterns) is now probably much too high compared with earlier years, and thus influences the overall CPI more than it should.

CHART II

PERCENT CHANGE IN THE SIX LARGEST
COMPONENTS OF THE FEDERAL BUDGET:
FISCAL 1981 TO DATE VS. COMPARABLE FISCAL 1980 PERIOD



Financing costs rose 3.2 per cent in July, resulting from a 1.8 per cent rise in house prices and a 1.3 per cent increase in mortgage interest rates. When the influence of these components is eliminated, the rise in the CPI slows significantly—from a 1.2 per cent rate of rise, month-over-month, to only 0.7 per cent. When year-to-year comparisons are made, the divergence is also striking (see Chart I). Whereas the original index spikes sharply upward, back to a double-digit rate of inflation, the 12-month increase in the CPI excluding home prices and financing has shown a steady improvement since the beginning of the year.

Food prices rose 0.8 per cent in July, following a 0.2 per cent increase in June and a decline in the preceding month. Although some acceleration in the rate of rise in food prices was expected to occur due to reduced supplies of red meats (Financial Digest—July 6, 1981), this component received an unexpected boost from higher prices of fruits and vegetables—primarily a result of the medfly infesta-

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tion in California. Prices of fruits and vegetables jumped 2.3 per cent during the month, following declines in May and June. Importantly, meat prices increased by two per cent in July, due to sharply curtailed supplies of beef and pork.

. . . May Not Be So Bleak After All . . .

Recently, ranchers have been sending fewer cows to market than earlier this year, preferring instead to increase placements in feedlots and breeding herds. However, the upward pressures on beef prices should ease in the fourth quarter. Many of the animals which were put into feedlots at the beginning of this year will have reached maturity and will be slaughtered—thus increasing supplies at meat counters. Similarly, hog producers have been curtailing pork production. This has been done to avoid a repeat of operating losses experienced by farmers during most of last year when production reached record levels, prices sank and operating costs skyrocketed. In July, pork prices jumped almost five per cent compared with June, and they currently stand almost 16 per cent above year-ago levels.

A significant determinant of meat supplies, and consequently their prices, is the cost and availability of feed grains. Feed grain prices affect meat prices through their influence on livestock profitability. The Department of Agriculture now expects feed grain production—corn, sorghum, oats and barley—to exceed last year's crop by 19 per cent. Due to

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 8/19/81	$ Change Since	
Reserve Bank Credit		Week Ago	Year Ago
U.S. Gov'ts and Agencies Owned Outright & RPs	134.378	+ 2.717	+ 4.851
Loans to Depository Inst.	1.457	+ .186	+ 1.112
Float	2.681	– 1.020	– 3.380
Total Reserve Bank Credit	148.147	+ 1.879	+ 7.219
Treasury Deposits with Federal Reserve Banks	2.974	– .640	– .656
Currency Outside Banks	125.428	+ .832	+ 6.803
Member Bank Reserves:			
Required	41.298	+ 1.416	+ .710
Excess (Deficiency)	.217	– .105	– .107
Total Reserves Held	41.515	+ 1.311	+ .603
Net Borrowed Reserves	1.009	+ .283	+ .994
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	91.752	+ .245	+ 9.242

		% Change Since	
Monetary Aggregates †		Three Months Ago*	Year Ago
M-1B	430.8	– 0.9‡	+ 6.7‡
M-2 (July '81)	1,760.9	+ 5.2	+ 9.1
M-3 (July '81)	2,090.3	+ 8.9	+ 11.6
L (May '81)	2,476.0	+ 7.2	+ 11.0

† Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 8/28/81	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	15.55%	15.58%	14.90%
* Federal Agencies	16.10	17.00	16.05
* Project Notes—Taxfree (46% Taxable Equivalent)	14.91	16.67	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	17.70	17.95	18.40

‡ Finance Company Paper—Prime	
5- 14 days	15.25%
15- 29 days	16.00
30- 59 days	17.25
60- 89 days	16.75
90-179 days	15.75
180-239 days	15.75
240-270 days	14.00

‡* Bankers' Acceptances	
Sep.	17.25%
Oct.	17.10
Nov.	16.80
Dec.	16.75
Jan.	16.65
Feb.	16.55

‡ Industrial Paper—Prime	
30- 89 days	17.00%
90-120 days	17.00

† Federal Funds Effective Rate 16.10%

‡ Discount basis.

* Subject to availability.

† Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'81	$ 2,882	$ 2,853	$ 2,565
Gross National Product (1972 Dollars)*	2nd Q'81	$ 1,507	$ 1,516	$ 1,463
Percent Change, Annual Rate	2nd Q'81	– 2.4%	8.6%	– 9.9%
Change in Consumer Prices (all urban consumers)*	Jul '81n	14.4%	8.4%	1.2%
Change in Producer Prices*	Jul '81	4.8%	7.2%	20.4%
Civilian Employment (Thousands of Persons) †	Jul '81	98,962	98,392	96,999
Unemployment as % of Civilian Labor Force †	Jul '81	7.0%	7.3%	7.6%
Personal Income*	Jul '81	$ 2,422	$ 2,385	$2,161
Leading Indicators Composite Index (1967=100) †	Jul '81n	133.7	133.9	128.1
Industrial Production Index (1967=100) †	Jul '81	153.4	152.9	140.4
Net Change in Consumer Installment Credit †	Jun '81	$ 1.93	$ 1.35	–$ 2.04
U.S. Merchandise Trade Balance †	Jun '81	–$ 2.10	–$ 2.44	–$ 1.91
Plant and Equipment Expenditures*	3rd Q'81	$322.88(a)	$317.29(a)	$296.23
Private Housing Starts (Thousands of Units)*	Jul '81	1,055	1,021	1,277
New Construction Expenditures*	Jun '81	$ 236.2	$ 239.7	$ 218.5
Total Business Inventories †	Jun '81	$ 493.5	$ 490.3	$ 464.2
Total Business Sales †	Jun '81	$ 353.0	$ 349.2	$ 305.3

* Seasonally adjusted annual rate.

† Seasonally adjusted.

n-Newly reported figure.

a-Anticipated.

improved weather conditions, corn production alone could be 16 per cent greater than last year's drought-affected crop. In addition, the food grain harvest--wheat, rye and rice--is forecast to be 16 per cent higher than last year, with wheat production expected to reach a record high of 2.75 billion bushels.

The expectation of a favorable harvest of food and feed grains this year has already depressed prices of many crops. At the end of August, corn prices were 17 per cent below their end-March quotes and sorghum prices fell 33 per cent during the same period. Traditionally, lower grain prices have resulted in a greater number of animals being put into feedlots, ultimately expanding supplies at the meat counter.

Finally, the index for transportation increased 0.8 per cent in July, following increases averaging less than 0.2 per cent in the preceding three months. Substantial increases in the index for public transportation and used cars were primarily responsible for this jump. Intracity mass transit fares rose 14.7 per cent during the month, reflecting sharp increases in public transit fares in a number of metropolitan areas, including New York, Chicago and Los Angeles. When combined with large increases in airline, intercity bus and taxi fares, this resulted in a 6.3 per cent increase in the public transportation component during July, compared with June.

. . . But Budget Prospects Remain Dismal

The upturn in the rate of consumer price inflation

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (8/12/81)	128,656	+ 1,193	+36,639
New York City (8/12/81)	30,679	– 106	+ 9,495
Commercial Paper (8/12/81)	156,094	+ 1,843	+33,337

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/12/81)	183,558	– 674	+23,465
New York City (8/12/81)	53,714	– 572	+ 6,301

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/12/81)	446,883	– 1,896	+47,172
New York City (8/12/81)	106,897	– 1,279	+16,641

Financial Markets

	Friday 8/28/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	16.00%	– .20	+ 6.05
180-Day Bills†	16.80	– .05	+ 6.54
Longest Bills†	16.75	+ .19	+ 6.56
Recent Issues:			
16¹/₄s 8/31/83	16.58	+ .38	
14s 6/30/85	16.00	+ .25	
14⁷/₈s 8/15/91	15.21	+ .31	
13⁷/₈s 5/15/11	14.41	– .24	
Municipals:			
Bond Buyer–20 Bond Index* (8/27/81)	12.97%	+ 1.03	+ 4.12
Blue List Total ($ Million)	$ 729	– $ 71	+ $ 88
30-Day Visible Supply ($ Million)	$1,718	– $265	– $1,253
Total	$2,447	– $336	– $1,165
Corporates:			
Moody's Aa Composite (8/27/81)	15.68%	+ .31	+ 3.20
30-Day Visible Supply ($ Million)	$7,937	+ $345	+ $4,403
Stocks:			
Dow-Jones Averages:			
Industrials	892.22	– 28.35	– 40.37
Transportation	375.46	– 20.33	+ 55.35
Utilities	109.74	– 2.99	– 1.22
65 Stocks	350.22	– 13.34	+ 9.46
Standard and Poor's 500 Stocks	124.08	– 5.15	– 14.81
N.Y.S.E. Composite Index	71.97	– 3.13	+ 1.44
N.Y.S.E. Avg. Daily Vol. for Week (000's)	44,724	+ 3,960	+ 5,726

*** 46% Taxable equivalent 24.02%.**

† Bond equivalent.

International Rates

	Friday 8/28/81	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	17.25%	10.88%
1 month	18.25	11.44
3 month	18.50	12.50
6 month	18.75	12.69
1 year	18.00	12.69
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	15.20%	12.05%
Long Term (7 to 15 yrs.)	15.10	12.35

FOREIGN EXCHANGE SPOT RATES

New York Opening (8/28/81)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02476	40.38
Canada	.8294	1.2057
Denmark	.1292	7.7378
France	.1690	5.9155
Germany	.4055	2.4663
Italy	.0008130	1230.00
Japan	.004336	230.65
Mexico	.04018	24.89
Netherlands	.3650	2.7395
Switzerland	.4658	2.1470
U.K.	1.8372	.5443

was not the only discouraging economic news released last week. According to the Treasury Department, red ink again dominated the Federal budget in July. During the month, expenditures exceeded revenues by $10.3 billion which, although $4.7 billion less than the July, 1980 deficit, still brought the fiscal year-to-date red ink total to $59.7 billion. As a result, if the Reagan Administration's official estimate of a $55.6 billion deficit for the entire fiscal year is to be met, Washington will have to take in more than it spends in August and September. On the other hand, a continuation of the trends of the first ten months would produce a budget deficit for the fiscal year as a whole of $60 billion—or about ten per cent higher than the Administration's current estimate.

Unfortunately, prospects for a significant improvement in the Federal budget outlook are not bright. Despite the added emphasis being placed on national defense, the largest proportion of the fiscal year-to-date spending increase—more than 40 per cent of the $73 billion year-over-year gain—is accounted for by stepped-up income security outlays, such as inflation-indexed Social Security payments. The rise in national defense spending, in contrast, accounted for about 27 per cent of the overall spending increase.

But while the rise in income security outlays and defense spending has been widely publicized, the even faster growth in interest payments on the ever-expanding Federal debt has not (see Chart II on the first page). Interest payments are currently averaging more than $1.4 billion per month higher than year-earlier levels, and could reach $81 billion for the fiscal year as a whole. This total would be more than 25 per cent greater than interest outlays in fiscal 1980—and equivalent to approximately $360 for every man, woman and child in the United States.

Thus, in the absence of additional nondefense spending cuts in fiscal 1982, it appears likely that higher levels of defense spending and interest outlays, together with sizable personal and business tax cuts, will only widen the Federal deficit further. This, in turn, implies little relief for the financial markets any time soon.

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ENDURANCE TEST.

DURABILITY:
When picking a corporate trustee for a bond issue—whether you're a corporation or municipality—pick carefully. Because you're going to have to live with that trustee a long time.

Manufacturers Hanover is one of the nation's largest and most experienced bond trustees. We have the expertise to anticipate problems before you even close the issue. By identifying trouble spots early, everything will run more smoothly. Year after year.

SUREFOOTEDNESS:
As corporate trustee, Manufacturers Hanover moves quickly in handling the day-to-day administrative tasks of overseeing a bond issue.

We consistently meet the NYSE and SEC requirements for the prompt transfer of certificates from seller to buyer. With TRANSIFAC,℠ our electronic nerve center, each entry of data is "key verified"—entered twice by two different operators and then compared automatically by computer. It's the most accurate bondholder record-keeping system available.

ADAPTABILITY:
If a new or unusual change suddenly affects your company, Manufacturers Hanover reacts quickly in interpreting and analyzing indenture provisions. We know the alternate ways of handling many situations to help ensure the continued workability of the issue.

SENSE OF DIRECTION:
Our operations center is located in the heart of Wall Street, where most security trades take place—a location that facilitates the issuance and transfer of certificates for both you and your bondholders.

DETERMINATION:
No corporate trustee is more committed to service than Manufacturers Hanover. In addition to your own individual account officer, a backup officer—familiar with the requirements of your account—is ready to help you. Anytime.

If you want a corporate trustee who can meet every test, talk to Manufacturers Hanover. For more information on our whole range of indenture trusteeship services, call Joseph Unger, Vice President, at (212) 623-7542. Or write us at 40 Wall Street, New York, N.Y. 10015.

IF YOUR TRUSTEE CAN'T PASS IT,
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The Manufacturers
Hanover
Financial
Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

FRIDAY, SEPTEMBER 4, 1981
VOLUME XVIII, NUMBER 36

For Petroleum Prices . . .

American consumers and industry may continue to benefit from stable petroleum prices through the end of this year—perhaps longer. The current global oversupply of oil, weakening demand and the inability of the OPEC ministers to agree on prices during the Geneva conference two weeks ago have combined to force many producers to cut prices. What is more, the one million barrel per day reduction in production just announced by Saudi Arabia will not significantly reduce the current world surplus of crude oil, estimated at two to three million barrels per day.

A major factor influencing this turn of events is the sharp drop in global oil consumption. During the two-year period ending in December, 1980—when the price of crude oil jumped by almost 160 per cent—the United States and other major industrial nations cut their dependence on petroleum dramatically. Demand by the seven leading industrial countries fell by 9.4 per cent to 30.8 million barrels per day during this time period, while in the United States alone, consumption declined by ten per cent.

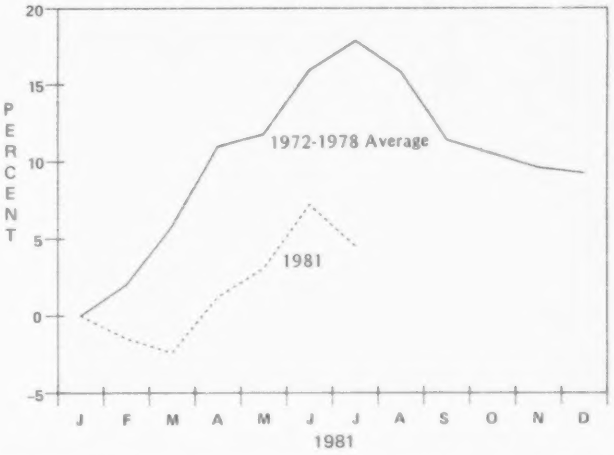
PASSENGER CAR EFFICIENCY

Year	Average Miles Traveled per Car	÷	Average Number of Gallons Consumed per Car	=	Average Miles Traveled per Gallon of Fuel Consumed
1977	9,839		706		13.94
1978	10,046		715		14.05
1979	9,485		664		14.28
1980	9,390		638		14.72
1981 E	9,465		622		15.22

Source: Federal Highway Administration; Department of Energy

It has become clear that U.S. consumers and business alike have been turning away from oil and seeking less expensive substitutes. Petroleum accounted for close to one-half of total energy consumed in the U.S. in 1978. By 1980, its share was reduced to 45 per cent and so far this year it has averaged less than 42 per cent. This reflects primarily the precipitous decline in the demand for residual fuel oil, used mostly by electric utilities. Coal and nuclear power have been increasingly substituted for petroleum by the utilities in an effort to reduce costs.

GASOLINE CONSUMPTION IN 1981 (DOT)
VS. THE AVERAGE OF 1972-1978 (LINE)
(PER CENT CHANGE FROM JANUARY)



During the first seven months of this year, gasoline consumption fell 6.4 per cent compared with the same period a year ago, and was 15 per cent less than in 1978. However, for the first time in three years, the number of miles driven on the nation's roads has increased. The Department of Transportation estimates that motorists logged 2.4 per cent more miles during the first half of the year compared with the same period a year ago.

The slide in gasoline consumption—despite increased miles traveled—indicates that a substantial improvement in the fuel efficiency of cars now being driven has taken place (see table). What is more, this conservation effort would have been even more noticeable, had it not been retarded by the slower turnover in cars. New car sales have plummeted during the past two years, as a result of rising sticker prices and lofty finance charges, leaving large numbers of older, less efficient automobiles still on the road.

. . . The Law Of Supply And Demand . . .

Traditionally, consumption of gasoline rises sharply during late spring and summer as many motorists

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take driving vacations and travel more on weekends. During this time period, gasoline demand is usually 10-20 per cent higher than in January. This year, however, gasoline consumption increased only slightly and actually dropped in July, compared with June, counter to the normal seasonal trend exhibited during the 1972-78 period (see chart on the first page).

But conservation efforts have not been limited only to gasoline. Home heating oil consumption has also declined sharply. During the two-year period ending in December, 1980, its use had dropped by more than 12 per cent—while so far in 1981, demand has been running a sizable 20 per cent below the comparable period a year ago. As a result of the high price of home heating oil, about 1.2 million homeowners have converted to either natural gas or less traditional sources of energy such as wood, windmills or solar power. In addition, an even greater number of consumers has upgraded the efficiency of existing oil heating units. This development, together with increased conservation efforts, has reduced oil consumption per burner by approximately 30 per cent since 1976.

. . . Still Work

While inventories of refined petroleum products were drawn down in early August from their record highs registered earlier this year, crude oil stocks still

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 8/26/81	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	134.581	+ .203	+ 5.964
Loans to Depository Inst.	1.726	+ .269	+ 1.025
Float	2.206	– .517	– 3.280
Total Reserve Bank Credit	147.357	– .832	+ 7.618
Treasury Deposits with Federal Reserve Banks	3.106	+ .132	– .734
Currency Outside Banks	124.526	– .903	+ 6.734
Member Bank Reserves:			
Required	41.281	– .017	+ .996
Excess (Deficiency)	.220	+ .003	+ .095
Total Reserves Held	41.501	– .014	+ 1.091
Net Borrowed Reserves	1.260	+ .251	+ .695
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	91.647	– .104	+ 3.239

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M-1B	432.1	+ 0.3‡	+ 6.4‡
M-2 (July '81)	1,760.5	+ 5.2	+ 9.1
M-3 (July '81)	2,091.4	+ 9.2	+ 11.7
L (May '81)	2,476.7	+ 7.3	+ 11.0

†Seasonally adjusted.

*Seasonally adjusted annual rate.

‡Four-week moving average.

New York Money Market

Offering Rates 9/4/81	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	15.40%	15.65%	14.95%
* Federal Agencies	15.40	16.45	16.65
* Project Notes—Taxfree (46% Taxable Equivalent)	18.52	17.87	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	17.85	18.00	18.63

‡Finance Company Paper—Prime	
5- 14 days	17.00%
15- 29 days	17.13
30- 59 days	17.00
60- 89 days	16.75
90-179 days	15.75
180-239 days	13.00
240-270 days	12.00

‡* Bankers' Acceptances	
Oct.	17.00%
Nov.	17.00
Dec.	16.95
Jan.	16.85
Feb.	16.75
Mar.	16.40

‡Industrial Paper—Prime	
30- 89 days	17.00%
90-120 days	16.88

†Federal Funds Effective Rate 16.40%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'81	$ 2,882	$ 2,853	$ 2,565
Gross National Product (1972 Dollars)*	2nd Q'81	$ 1,507	$ 1,516	$ 1,463
Percent Change, Annual Rate	2nd Q'81	– 2.4%	8.6%	– 9.9%
Change in Consumer Prices (all urban consumers)*	Jul '81	14.4%	8.4%	1.2%
Change in Producer Prices*	Aug '81n	3.6%	4.8%	14.4%
Civilian Employment (Thousands of Persons)†	Aug '81n	98,944	98,962	97,003
Unemployment as % of Civilian Labor Force†	Aug '81n	7.2%	7.0%	7.6%
Personal Income*	Jul '81	$ 2,422	$ 2,385	$2,161
Leading Indicators Composite Index (1967=100)†	Jul '81	133.7	133.9	128.1
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Net Change in Consumer Installment Credit†	Jun '81	$ 1.93	$ 1.35	–$ 2.04
U.S. Merchandise Trade Balance †	Jul '81n	–$ 0.54	–$ 2.10	–$ 0.87
Plant and Equipment Expenditures*	3rd Q'81	$322.88(a)	$317.29(a)	$296.23
Private Housing Starts (Thousands of Units)*	Jul '81	1,055	1,021	1,277
New Construction Expenditures*	Jul '81n	$ 235.1	$ 238.7	$ 216.4
Total Business Inventories†	Jun '81	$ 493.5	$ 490.3	$ 464.2
Total Business Sales†	Jun '81	$ 353.0	$ 349.2	$ 305.3

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

remain high. U.S. oil producers and processors took delivery of substantial amounts of oil under long-term contracts, in the face of falling demand. Whereas earlier this year some accumulation was intentional to serve as a buffer against potential disruptions in the world market, it became apparent by the middle of the second quarter that inventories had grown too large. Stocks of crude petroleum represented more than 80 days of supply compared with an average of about 65 days registered during the past decade.

In light of slumping demand for refined products, sharply higher costs of crude oil (partially due to the complete deregulation of prices in January) and the high costs of storing large inventories of finished products, refiners' profitability has been particularly hard hit during the first half of this year. As a result, many refiners have been forced to slow production significantly, cutting capacity utilization rates to the lowest level since the Great Depression. Others have been forced to close their doors completely.

But A Strong Dollar Helps

In spite of declining oil consumption, the combination of a strong dollar and the current level of oil prices has affected the economies of the developed nations adversely. Since the world price of oil is denominated and paid for in dollars, the rising value of the dollar makes oil imports more expensive in

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (8/19/81)	128,481	+ 49	+35,276
New York City (8/19/81)	30,039	− 421	+ 8,429
Commercial Paper (8/19/81)	154,039	+ 1,529	+32,905

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/19/81)	182,944	− 612	+22,846
New York City (8/19/81)	53,535	− 179	+ 6,149

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/19/81)	445,764	− 1,126	+46,462
New York City (8/19/81)	105,621	− 1,276	+14,839

Financial Markets

	Friday 9/4/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	16.20%	+ .20	+ 6.08
180-Day Bills†	17.00	+ .20	+ 6.43
Longest Bills†	17.10	+ .35	+ 6.34
Recent Issues:			
16¼s 8/31/83	16.85	+ .27	
14s 6/30/85	16.95	+ .95	
14⅞s 8/15/91	15.35	+ .14	
13⅞s 5/15/11	14.80	+ .39	
Municipals:			
Bond Buyer–20 Bond Index* (9/3/81)	13.10%	+ .13	+ 4.32
Blue List Total ($ Million)	$ 626	− $103	+ $ 54
30-Day Visible Supply ($ Million)	$1,345	− $373	− $1,944
Total	$1,971	− $476	− $1,890
Corporates:			
Moody's Aa Composite (9/3/81)	15.77%	+ .09	+ 3.34
30-Day Visible Supply ($ Million)	$8,897	+ $960	+ $5,177
Stocks:			
Dow-Jones Averages:			
Industrials	861.68	− 30.54	− 79.28
Transportation	358.66	− 16.80	+ 33.23
Utilities	106.44	− 3.30	− 6.34
65 Stocks	337.32	− 12.90	− 7.66
Standard and Poor's 500 Stocks	120.07	− 4.01	− 4.81
N.Y.S.E. Composite Index	69.55	− 2.42	− 2.58
N.Y.S.E. Avg. Daily Vol. for Week (000's)	41,602	− 3,122	− 6,733

* 46% Taxable equivalent 24.26%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 9/4/81	Week Ago
Overnight	16.75%	17.25%
1 month	18.00	18.25
3 month	18.63	18.50
6 month	18.69	18.75
1 year	18.00	18.00
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	15.30%	15.20%
Long Term (7 to 15 yrs.)	15.20	15.10

FOREIGN EXCHANGE SPOT RATES

New York Opening (9/4/81)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.0252	39.68
Canada	.8354	1.1971
Denmark	.1321	7.5718
France	.1722	5.8085
Germany	.4133	2.4195
Italy	.0008244	1213.00
Japan	.004345	230.15
Mexico	.04008	24.95
Netherlands	.3723	2.6860
Switzerland	.4766	2.0980
U.K.	1.8445	.5422

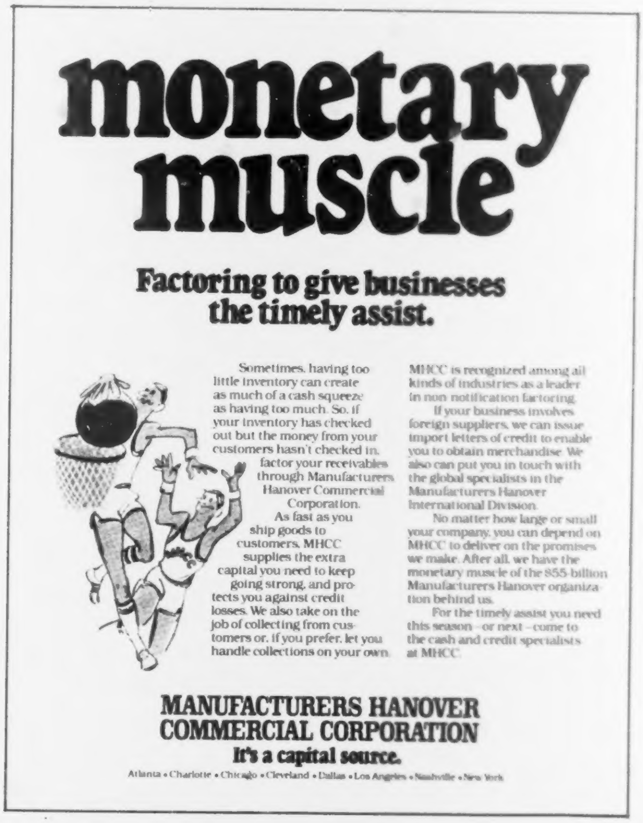
terms of other national currencies. Despite efforts by the non-OPEC countries to reduce their dependence on imported oil, the depreciation of their currencies vis-a-vis the dollar has increased their energy costs sharply.

For example, West Germany cut imports of crude petroleum and petroleum products by 9.4 per cent in 1980 from the previous year. Yet Germany's petroleum import bill rose by 31 per cent partially because the D-mark fell by 12.5 per cent against the dollar. This year the petroleum import bill may be even higher, since the D-mark has depreciated by about 19 per cent against the dollar and a significant recovery of the German currency before 1982 is unlikely. Further, even such energy sufficient or non-OPEC oil exporting countries as the United Kingdom and Norway, which have benefitted from high world prices for oil, have seen prices for their other imports skyrocket as their currencies depreciated against the dollar.

Conversely, the strong dollar benefits the oil exporters. Even without increasing the price of their oil, the purchasing power of the dollars which they earn has increased sharply in terms of other currencies over the last year. This no doubt has been a factor in encouraging the oil-producing countries to increase their imports. Under the influence of the rising dollar, total OPEC imports grew in dollar terms by 31 per cent in 1980 after increasing seven per cent in 1979, when the dollar was still depressed.

The strength of the dollar has also helped to compensate for sharp cuts in oil production in the face of a worldwide oil glut. OPEC oil production is currently running at about 20 million barrels per day, down from about 27 million barrels per day in 1980. Those oil exporting countries which consume all of their oil revenues in developing their economies have attempted with little success to sustain production in order to have continued cash inflows. However, many of the oil exporting countries have benefitted somewhat from the high interest rates available to dollar holders from dollar-denominated financial assets. This has encouraged a continuing inflow of OPEC funds into both the U.S. and the Eurodollar markets which has helped sustain the dollar exchange rates.

As long as interest rates for dollar denominated assets remain high, it is probable that exchange rates will favor the dollar. This, in turn, should encourage petroleum production at levels high enough to sustain demand at close to current prices, leading to stable energy prices. However, the other developed economies (as well as the less developed ones) must look to continued energy conservation and increased exports in order to adjust to the effects of the strong dollar. H



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The Manufacturers Hanover Financial Digest

Weekly Commentary,
Selected Financial Data,
and Business Indicators

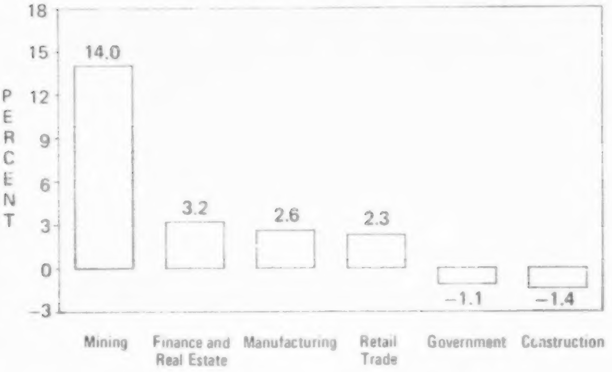
MONDAY, SEPTEMBER 14, 1981
VOLUME XVIII, NUMBER 37

Labor Market Conditions . . .

One of the more recent indications that the pace of economic activity is treading water was the labor market report for August. Although the unemployment rate in August rose to a seasonally adjusted 7.2 per cent of the work force from 7.0 per cent in July, this development did not represent a significant departure from past trends. This rate has fluctuated between 7.0 and 7.6 per cent since May, 1980, reaching the high of 7.6 per cent on five separate occasions, and averaging 7.4 per cent during the 16-month period as a whole.

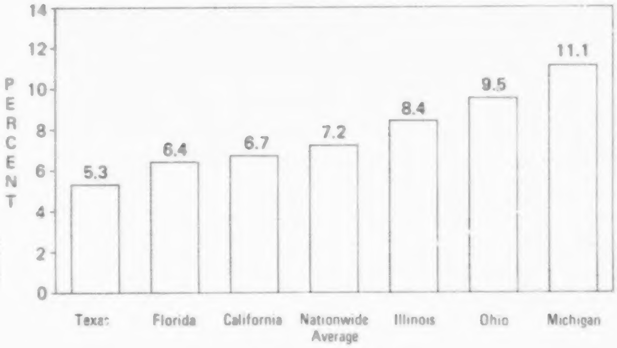
In August, total employment remained unchanged month-over-month, holding steady at a seasonally adjusted 98.9 million workers. However, in this case, it is three million jobs higher than just six months ago, despite well-publicized pronouncements of imminent recession, a sharp downturn in residential construction and the sluggish pace of new automobile sales. Among the goods-producing industries, total employment continued to expand in mining (especially in those companies associated with oil and gas extraction), advancing 1.6 per cent in August compared with July levels and a sizable 14 per cent, or about 150,000 jobs, year-over-year.

CHART I
12-MONTH PERCENT CHANGE IN
EMPLOYMENT BY INDUSTRY
(AUGUST, 1980 TO AUGUST, 1981)



Employment in the construction industry—hard-hit by high interest rates—continued to stagnate. It dropped slightly in August month-over-month and currently stands 1.4 per cent below year-earlier levels. Employment declines were also posted in some manufacturing industries.

CHART II
UNEMPLOYMENT RATE:
NATIONWIDE AND BY STATE
(AUGUST, 1981)



Looking beneath the surface, job losses in the food processing (30,000) and lumber and wood (15,000) industries overwhelmed a 15,000 jobs gain in the machinery-producing industries, prompting the first downturn in manufacturing employment in six months. A net decline of 32,000 jobs, or 0.2 per cent, was posted, month-over-month. But despite this modest setback, manufacturing employment in August still stood 2.6 per cent above year-ago levels (see Chart I).

. . . Exhibit A Persistent Resiliency

In the services sector, in contrast, the number of people employed in retail trade increased by 60,000 in August, and by 350,000 during the past year. However, the budget ax may have finally begun to take its toll on Federal, state and local government employees. The number of Federal jobs declined by 35,000 in August compared with July levels and now stands 2.4 per cent below year-earlier levels. Federal employment has now declined in six of the past eight months and, in August stood more than 11 per cent below the 3.1 million peak reached in April, 1980. The number of state and local government employees posted a somewhat smaller decline during the month. State and local government employment declined by 17,000 persons in

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August, and by about one per cent year-over-year. State and local government employment has, however, been ratcheting downward more rapidly since late 1980, losing approximately 200,000 jobs in the last ten months.

The number of unemployed persons rose 2.1 per cent in August, to 7.7 million, after decreasing 3.6 per cent in July. Although this total is somewhat higher than the month before (7.5 million), it is still slightly below the 7.8 million average which has prevailed during the year to date. Also, as with employment by industry, unemployment varied widely, depending upon age-sex group and region. Whereas the rate of unemployment among young men aged 20-24 years stood at 12.7 per cent in August, the rate of unemployment among all married men remained below four per cent. Unemployment among teenagers of both sexes, however, remained lofty—affecting one of every five persons aged 16-19 years.

Regionally, unemployment varied significantly by state. In general, states located in the sunbelt continued to register rates of unemployment well below those posted not only in the northern industrial states but also the nation as a whole. The unemployment rate in Texas in August, for example,

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 9/2/81	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	133.601	– .980	+ 4.907
Loans to Depository Inst.	1.448	– .278	+ .100
Float	2.763	+ .615	– 1.425
Total Reserve Bank Credit	146.601	– .698	+ 7.081
Treasury Deposits with Federal Reserve Banks	3.419	+ .313	+ .713
Currency Outside Banks	123.811	– .717	+ 5.670
Member Bank Reserves:			
Required	40.831	– .450	+ .230
Excess (Deficiency)	.265	+ .103	– .209
Total Reserves Held	41.096	– .347	+ .021
Net Borrowed Reserves	.937	– .381	+ .085
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	91.837	+ .189	+ 8.192
		% Change Since Three Months Ago*	**% Change Since Year Ago**
Monetary Aggregates†			
M1-B	430.9	+ 1.3‡	+ 6.0‡
M2 (August '81)	1,779.0	+ 8.2	+ 8.9
M3 (July '81)	2,090.9	+ 9.1	+ 11.6
L (May '81)	2,476.7	+ 7.3	+ 11.0

†Seasonally adjusted. *Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 9/11/81	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	15.95%	15.26%	14.70%
* Federal Agencies	16.19	17.15	16.72
* Project Notes—Taxfree (46% Taxable Equivalent)	15.74	18.05	18.05
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	17.35	17.70	18.13

‡Finance Company Paper—Prime	
5- 14 days	16.25%
15- 29 days	16.50
30- 59 days	16.75
60- 89 days	16.75
90-179 days	16.75
180-239 days	15.00
240-270 days	12.00

‡* Bankers' Acceptances	
Oct.	16.65%
Nov.	16.65
Dec.	16.60
Jan.	16.55
Feb.	16.45
Mar.	16.20

‡Industrial Paper—Prime	
30- 89 days	16.88%
90-120 days	16.63

†Federal Funds	
Effective Rate	16.20%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'81	$ 2,882	$ 2,853	$ 2,565
Gross National Product (1972 Dollars)*	2nd Q'81	$ 1,507	$ 1,516	$ 1,463
Percent Change, Annual Rate	2nd Q'81	– 2.4%	8.6%	– 9.9%
Change in Consumer Prices (all urban consumers)*	Jul '81	14.4%	8.4%	1.2%
Change in Producer Prices*	Aug '81	3.6%	4.8%	14.4%
Civilian Employment (Thousands of Persons)†	Aug '81	98,944	98,962	97,003
Unemployment as % of Civilian Labor Force†	Aug '81	7.2%	7.0%	7.6%
Personal Income*	Jul '81	$ 2,422	$ 2,385	$2,161
Leading Indicators Composite Index (1967=100)†	Jul '81	133.7	133.9	128.1
Industrial Production Index (1967=100) †	Jul '81	153.4	152.9	140.4
Net Change in Consumer Installment Credit†	Jul '81n	$ 1.95	$ 1.93	–$ 1.20
U.S. Merchandise Trade Balance †	Jul '81	–$ 0.54	–$ 2.10	–$ 0.87
Plant and Equipment Expenditures*	4th Q'81n	$332.69(a)	$322.88(a)	$299.58
Private Housing Starts (Thousands of Units)*	Jul '81	1,055	1,021	1,277
New Construction Expenditures*	Jul '81	$ 235.1	$ 238.7	$ 216.4
Total Business Inventories†	Jun '81	$ 493.5	$ 490.3	$ 464.2
Total Business Sales†	Jun '81	$ 353.0	$ 349.2	$ 305.3

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

was less than one-half that in Michigan and almost two full percentage points below the national average (see Chart II on the first page). One possible explanation has been the surge in employment in the oil and gas industries which rose, nationwide, by almost 20 per cent between July, 1980 and July, 1981.

Some Good News On Prices

Despite the disappointing, housing-based surge in the consumer price index in July (Financial Digest—August 31, 1981), it is much too early to expect an imminent return to double-digit rates of inflation. One encouraging sign was the extremely modest rise in the producer price index (PPI) in August. The index for finished goods rose only 0.3 per cent last month, following increases of 0.4 per cent in July and 0.6 per cent in June. During the 12-month period ending August, 1981, the PPI rose 7.9 per cent—well within single-digit territory.

At other stages of processing, price improvements were also posted—especially compared with year-ago performance. Raw materials' prices declined by 0.6 per cent in August compared with July, a substantial turnaround from the 4.6 per cent, month-over-month advance posted in August, 1980. At the intermediate level, producers' costs rose by 0.4 per

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since	
		Week Ago	Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (8/26/81)	130,174	+ 1,702	+36,607
New York City (8/26/81)	30,859	+ 820	+ 8,859
Commercial Paper (8/26/81)	155,048	+ 1,009	+34,204

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (8/26/81)	182,859	+ 75	+22,247
New York City (8/26/81)	53,393	– 20	+ 5,644

Total Loans Gross Adjusted

	Latest Week	Change Since	
		Week Ago	Year Ago
Nationwide (8/26/81)	447,659	+ 2,025	+47,353
New York City (8/26/81)	105,868	+ 369	+14,231

Financial Markets

	Friday 9/11/81	Change Since	
		Week Ago	Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	14.52%	– 1.68	+ 4.06
180-Day Bills†	14.84	– 2.16	+ 4.26
Longest Bills†	14.41	– 2.69	+ 3.90
Recent Issues:			
16¼s 8/31/83	16.66	– .19	
14s 6/30/85	16.03	– .92	
14⅞s 8/15/91	15.06	– .29	
13⅞s 5/15/11	14.45	– .35	
Municipals:			
Bond Buyer–20 Bond Index* (9/10/81)	13.21%	+ .11	+ 4.39
Blue List Total ($ Million)	$ 584	– $ 42	– $ 103
30-Day Visible Supply ($ Million)	$1,593	+ $248	– $1,091
Total	$2,177	+ $206	– $1,194
Corporates:			
Moody's Aa Composite (9/10/81)	15.95%	+ .18	+ 3.58
30-Day Visible Supply ($ Million)	$8,447	– $450	+ $4,735
Stocks:			
Dow-Jones Averages:			
Industrials	872.81	+ 11.13	– 63.71
Transportation	358.40	– .26	+ 37.14
Utilities	107.27	+ .83	– 4.89
65 Stocks	339.95	+ 2.62	– 2.53
Standard and Poor's 500 Stocks	121.61	+ 1.54	– 3.93
N.Y.S.E. Composite Index	70.32	+ .77	– 2.33
N.Y.S.E. Avg. Daily Vol. for Week (000's)	44,798	+ 3,196	– 1,218

* 46% Taxable equivalent 24.46%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 9/11/81	Week Ago
Overnight	16.88%	16.75%
1 month	17.50	18.00
3 month	18.00	18.63
6 month	18.25	18.69
1 year	17.88	18.00
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	15.45%	15.30%
Long Term (7 to 15 yrs.)	15.35	15.20

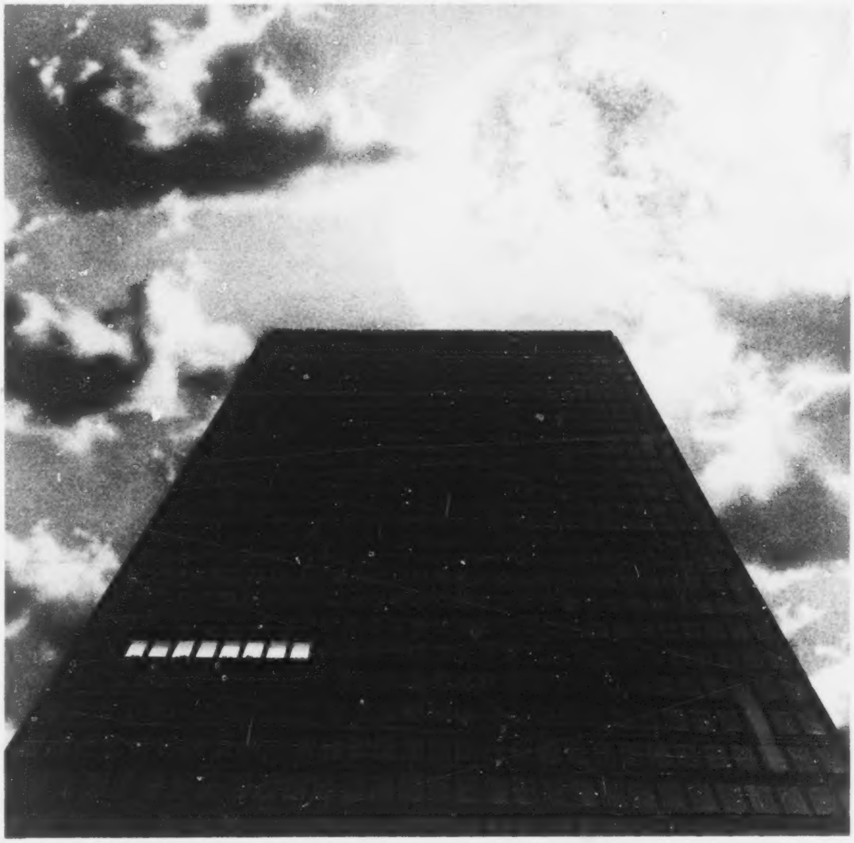
FOREIGN EXCHANGE SPOT RATES

New York Opening (9/11/81)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02541	39.36
Canada	.8282	1.2074
Denmark	.1328	7.5278
France	.1734	5.7675
Germany	.4161	2.4033
Italy	.0008287	1206.70
Japan	.004317	231.63
Mexico	.03989	25.07
Netherlands	.3761	2.6590
Switzerland	.4848	2.0625
U.K.	1.7960	.5568

cent, the same increase as in July, but less than one-half the one per cent gain registered in August, 1980 month-over-month.

Despite repeated pronouncements of an imminent food price surge, food prices actually exerted a favorable impact on the rate of producer price inflation last month. Consumer food prices increased only 0.2 per cent month-over-month, a sharp deceleration from the 1.5 per cent surge in July. Another major factor dampening the rate of inflation last month was energy. Prices of finished energy products fell 0.7 per cent, the third decrease in the last four months. Contributing to this decline was a 1.2 per cent month-over-month drop in prices of refined petroleum products (the fourth in a row) and a 0.3 per cent decline in domestic crude oil prices, compared with month-earlier levels. What is more, the outlook for energy prices is for further moderation. The decline in domestic and global petroleum consumption relative to current production levels ensures additional downward pressures on crude oil prices ahead. H

THE MOONLIGHTING PORTFOLIO.



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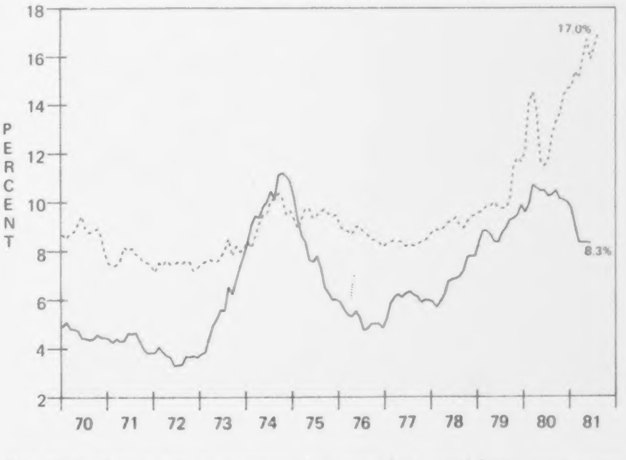
MONDAY, SEPTEMBER 21, 1981
VOLUME XVIII, NUMBER 38

Some Ease . . .

The modest reduction in the prime rate last week from 20.5 to 20 per cent has prompted a flurry of speculation that the Federal Reserve has started to loosen the monetary reins. The Federal Reserve, however, continues to insist that the basic thrust of monetary policy remains unchanged. But on at least one point, there can be no disagreement—short-term interest rates have moved significantly lower during the past month, especially the Federal funds rate. This key rate declined by almost 250 basis points during the four weeks ending September 16, and now stands at its lowest point since April. Other interest rates moved in sympathy with the funds rate, with certificate of deposit, commercial paper and Treasury bill rates all moving markedly lower.

In the bond markets, in contrast, the trend in interest rates was up, reflecting primarily heightened investor concern over the bond market impact of another sizable Federal government deficit in fiscal 1982. Top-quality corporate yields increased from 45 to 75 basis points during the four weeks ending September 16, while long-term U.S. government and municipal bond rates also moved sharply higher. The extent of the current disarray is clearly highlighted by the almost ten percentage point real interest rate now prevailing on new issue, double-A rated utility bonds. Although this level of real interest rates is approximately four times greater than those which existed during the 1970s, it has been insufficient to prompt widespread retail buying interest.

12-MONTH PERCENT CHANGE IN PCE DEFLATOR (LINE)
VS. NEW ISSUE AA UTILITY RATE (DOT)



But despite the disarray in the bond markets, the fundamentals continue to suggest that some decline in money and bond market interest rates could occur sometime soon. Inflation rates, for example, have clearly moved to a lower level—the ~~uptick in~~ August's consumer price index notwithstanding. This blip resulted primarily from a rise in home prices and mortgage interest rates. When the influence of these two components is eliminated from the index, the 10.7 per cent rate of inflation during the 12-month period ending July, 1981 is transformed into a 7.6 per cent rate of rise during the period.

. . . Less Squeeze . . .

In the economy, it appears likely that the pace of business has slowed over the summer, and will remain subdued during the remainder of this year. Continuing weakness in the housing sector, autos, business plant and equipment spending and net exports all point to sluggish economic growth. In addition, unemployment insurance claims are on the rise once again which, together with the 0.4 per cent month-over-month downturn in industrial production in August, could herald a jump in the unemployment rate, a slowing of personal income growth and a downturn in household spending. All of these developments could lead to a slowdown in private sector credit demands and a downturn in interest rates.

Even investor concern over the impact of likely Federal budget deficits on interest rates may be unjustified, since the Administration seems determined to implement further spending reductions. In the interim, however, concern over Federal government finances has not been misplaced. Soaring interest and income security outlays as well as stepped-up defense spending, seriously jeopardize the ability of the Administration to achieve a $42 billion budget deficit in fiscal 1982, and, in fact, the actual total may be closer to $60 billion. This suggests that the financial markets will have to absorb another large supply of Treasury and Federal

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agency securities in the coming year, which in the absence of any significant upturn in demand for these issues, will place downward pressures on their prices and upward pressures on yields.

On a more positive note, the Federal Reserve continues to achieve a certain measure of success in controlling the growth of the monetary aggregates. The narrowly defined monetary aggregate M1-B, for example, is still expanding at an annual rate well below its 1981 lower target boundary of six per cent (4.6 per cent year-to-date growth). As of the latest week, it stood almost $11 billion below its lower target boundary and a sizable $21 billion below its upper limit. Even the growth of M2 is only slightly above its 1981 upper target boundary of nine per cent (9.3 per cent year-to-date), despite the rapid expansion of money market funds.

. . . Equals Lower Rates

In fact, with the exception of M3, the monetary aggregates are now expanding at annual rates either near or below the central bank's target ranges. This, in turn, has permitted a slight easing of Federal Reserve monetary policy. The growth of non-borrowed reserves—the building blocks of the money supply—has accelerated sharply over the past quarter, borrowings at the Federal Reserve's discount window have trended lower, the banking

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 9/9/81	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	132.277	− 1.324	+ 4.857
Loans to Depository Inst.	1.585	+ .137	+ .991
Float	2.277	− .474	− 3.719
Total Reserve Bank Credit	144.365	− 2.224	+ 5.317
Treasury Deposits with Federal Reserve Banks	2.767	− .652	− .266
Currency Outside Banks	123.780	− .030	+ 5.639
Member Bank Reserves:			
Required	39.307	− 1.524	− .739
Excess (Deficiency)	.261	+ .008	+ .083
Total Reserves Held	39.568	− 1.516	− .656
Net Borrowed Reserves	1.107	+ .158	+ .705
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	92.570	+ .732	+ 8.585

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1-B	432.9	+ 2.2‡	+ 6.0‡
M2 (August '81)	1,778.8	+ 8.1	+ 8.9
M3 (August '81)	2,118.9	+ 11.6	+ 11.7
L (May '81)	2,476.7	+ 7.3	+ 11.0

†Seasonally adjusted.

*Seasonally adjusted annual rate

‡ Four-week moving average.

New York Money Market

Offering Rates 9/18/81	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	14.28%	14.32%	14.06%
* Federal Agencies	14.54	15.58	16.29
* Project Notes—Taxfree (46% Taxable Equivalent)	17.13	17.22	17.31
Negotiable Time CDs Manufacturers Hanover		Rates By Arrangement	
* Secondary Market—Prime	16.40	16.63	16.75

‡Finance Company Paper—Prime	
5- 14 days	14.50%
15- 29 days	15.00
30- 59 days	15.38
60- 89 days	15.50
90-179 days	15.50
180-239 days	14.50
240-270 days	14.00

‡* Bankers' Acceptances	
Oct.	15.70%
Nov.	15.70
Dec.	15.70
Jan.	15.70
Feb.	15.60
Mar.	15.40

‡Industrial Paper—Prime	
30- 89 days	15.38%
90-120 days	15.63

†Federal Funds	
Effective Rate	15.70%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'81	$ 2,886	$ 2,853	$ 2,565
Gross National Product (1972 Dollars)*	2nd Q'81	$ 1,510	$ 1,516	$ 1,463
Percent Change, Annual Rate	2nd Q'81	− 1.6%	8.6%	− 9.9%
Change in Consumer Prices (all urban consumers)*	Jul '81	14.4%	8.4%	1.2%
Change in Producer Prices*	Aug '81	3.6%	4.8%	14.4%
Civilian Employment (Thousands of Persons) †	Aug '81	98,944	98,962	97,003
Unemployment as % of Civilian Labor Force †	Aug '81	7.2%	7.0%	7.6%
Personal Income*	Aug '81n	$ 2,446	$ 2,419	$ 2,179
Leading Indicators Composite Index (1967=100) †	Jul '81	133.7	133.9	128.1
Industrial Production Index (1967=100) †	Aug '81n	152.8	153.4	142.2
Net Change in Consumer Installment Credit †	Jul '81	$ 1.95	$ 1.93	−$ 1.20
U.S. Merchandise Trade Balance †	Jul '81	−$ 0.54	−$ 2.10	−$ 0.87
Plant and Equipment Expenditures*	4th Q'81	$332.69(a)	$322.88(a)	$299.58
Private Housing Starts (Thousands of Units)*	Aug '81n	937	1,049	1,411
New Construction Expenditures*	Jul '81	$ 235.1	$ 238.7	$ 216.4
Total Business Inventories †	Jul '81n	$ 499.5	$ 494.2	$ 466.8
Total Business Sales †	Jul '81n	$ 354.6	$ 354.4	$ 315.6

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

system's net free reserve position has improved markedly compared with three months ago and the Federal funds rate has been consistently trading in the 15½-16 per cent range recently. This key rate is now over four full percentage points lower than the 20 per cent rate prevailing earlier this summer. It was in response to these signs of ease, as well as a lower cost of funds that the banks, last week, cautiously dropped their base lending rate to 20 per cent.

To date, however, much of the downward interest rate impact of this slight shift toward monetary ease has been offset by a sharp surge in short-term business credit demands. During the 13 weeks ending September 2, for example, commercial and industrial loans outstanding at large weekly reporting banks rose a seasonally adjusted $9.7 billion, or at a more than 20 per cent seasonally adjusted annual rate. Commercial paper issuance by nonfinancial corporations, an alternative source of short-term credit for many companies, has also soared. Outstanding nonfinancial company paper increased at a seasonally adjusted annual rate of more than 55 per cent during the same period.

The Dollar Moves Lower, Too

The easing of some U.S. interest rates has had an effect on the exchange rate of the dollar as well.

(Continued on back page)

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (9/2/81)	131,431	+ 1,253	+36,913
New York City (9/2/81)	31,292	+ 433	+ 8,999
Commercial Paper (9/2/81)	153,896	− 1,152	+31,887

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/2/81)	184,894	+ 2,052	+23,133
New York City (9/2/81)	54,197	+ 804	+ 6,072

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/2/81)	452,152	+ 4,671	+47,678
New York City (9/2/81)	108,566	+ 2,698	+15,666

Financial Markets

	Friday 9/18/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	14.40%	− .85	+ 3.98
180-Day Bills†	15.10	− 1.16	+ 4.11
Longest Bills†	15.75	− .67	+ 4.37
Recent Issues:			
16s 9/30/83 (When Issued)	16.00	NA	
14s 6/30/85	15.69	− .34	
$14\frac{7}{8}$s 8/15/91	14.82	− .24	
$13\frac{7}{8}$s 5/15/11	14.18	− .27	
Municipals:			
Bond Buyer−20 Bond Index* (9/17/81)	12.79%	− .42	+ 3.81
Blue List Total ($ Million)	$ 562	− $ 22	− $ 129
30-Day Visible Supply ($ Million)	$1,409	− $184	− $ 746
Total	$1,971	− $206	− $ 875
Corporates:			
Moody's Aa Composite (9/17/81)	15.72%	− .23	+ 3.23
30-Day Visible Supply ($ Million)	$8,534	+ $ 87	+ $4,423
Stocks:			
Dow-Jones Averages:			
Industrials	836.19	− 36.62	− 127.55
Transportation	345.51	− 12.89	− 1.01
Utilities	104.24	− 3.03	− 8.10
65 Stocks	327.08	− 12.87	− 28.90
Standard and Poor s 500 Stocks	116.26	− 5.35	− 12.99
N.Y.S.E. Composite Index	67.27	− 3.05	− 7.54
N.Y.S.E. Avg. Daily Vol. for Week (000's)	42,462	− 2,336	− 14,188

* 46% Taxable equivalent 23.69%.

† Bond equivalent.

International Rates

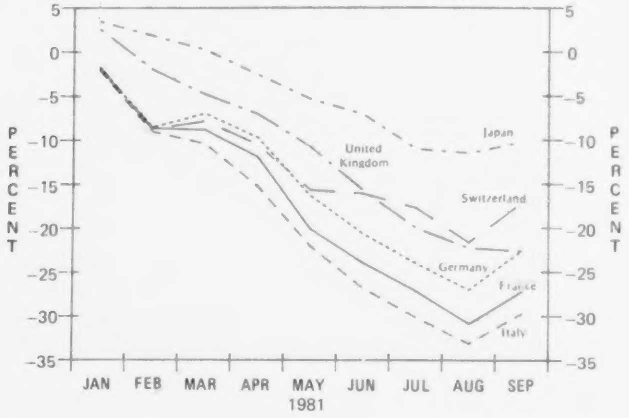
	Friday 9/18/81	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	15.88%	16.88%
1 month	16.50	17.50
3 month	17.38	18.00
6 month	17.63	18.25
1 year	17.10	17.88
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	15.55%	15.45%
Long Term (7 to 15 yrs.)	15.40	15.35

FOREIGN EXCHANGE SPOT RATES

New York Opening (9/18/81)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02687	37.21
Canada	.8330	1.2005
Denmark	.1383	7.2325
France	.1833	5.4550
Germany	.4407	2.2690
Italy	.0008654	1155.50
Japan	.004410	226.75
Mexico	.03995	25.03
Netherlands	.3972	2.5175
Switzerland	.5132	1.9485
U.K.	1.8320	.54[illegible]

During the past month, the dollar has weakened against the other major trading currencies (see chart). The German mark, for example, which had dropped to 2.57 to the dollar in mid-August was trading at about 2.35 to the dollar last week—an appreciation of almost ten per cent in one month. However, to place this recovery in perspective, the D-mark is still some 22 per cent below its December, 1980 level against the dollar. The Japanese yen which was, relatively speaking, the strongest major currency against the dollar since the end of 1980 (down only ten per cent) has also recovered from its low point of 245 yen to the dollar in early August to the 225 yen to the dollar range last week—an improvement of close to eight per cent from its low point. The yen is less interest rate sensitive than the other principal currencies.

VALUE IN U.S. DOLLARS OF CURRENCIES:
PERCENT CHANGE FROM DECEMBER, 1980



It would be premature to conclude that the dollar is entering an extended period of weakness in that exchange rates will return soon to the levels experienced in 1979 and early 1980. For one thing, most economists expect that U.S. real interest rates will remain high at least into early 1982 and will remain attractive when compared with similar interest rates in Europe and Japan. For another, other factors influencing exchange rates such as balance of payments developments and political stability will continue to favor the dollar through the end of 1981 at least. The U.S. anticipates a substantial current account surplus this year and capital inflows are expected to continue as long as interest rates remain attractive. Political instability and uncertainty in the Middle East and Eastern Europe will also favor the dollar.

The extreme sensitivity of the dollar exchange rate to changes in real interest rates compared with other influential factors is a recent phenomenon generated by the very large spread between real interest rates on dollar-denominated financial assets and foreign rates. Consequently, as U.S. interest rates fall and the real interest rate spread between U.S. and foreign investments narrows, the other factors affecting exchange rates will again increase in importance. As a result, a period of relative exchange rate stability may develop. Stability of exchange rates between the dollar and other currencies will be beneficial to the U.S. economy. Although a strong dollar helps in the fight against inflation by keeping the cost of imports down, it also encourages an increase in the volume of imports affecting the U.S. merchandise trade balance. Further, a strong dollar makes U.S. exports more expensive reducing the volume of our exports, adding to the trade deficit and reducing the number of jobs created by the export sector. Exchange rates in a floating rate system are in a constant process of adjustment seeking the balance somewhere between a "weak" level and a "strong" level which generates compensating benefits to the national economy.

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The Manufacturers Hanover Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, SEPTEMBER 28, 1981 VOLUME XVIII, NUMBER 39

The Calm Before The Storm?

For about eight months the economy has been treading water, giving off conflicting signals regarding its course. Many statistics have been following a seesaw pattern, but the magnitude of the declines or increases has been generally small. According to the Commerce Department's preliminary estimates, third quarter GNP may have slipped at a 0.5 per cent annual rate. However, that projection was reported before many statistics for August and September became available, which have since presented an even more disappointing picture.

In many ways, this confusing economic situation is reminiscent of the 1973-75 recession, or more specifically, the January-August period in 1974. During that time, the economy also drifted sideways, just before the bottom fell out in early September and the GNP contracted sharply in the next two quarters. Can the same thing happen this year? Have the past seven or eight months been the "calm before the storm"?

In late 1973 and continuing into 1974, the economy was adversely affected by numerous factors, some similar to today's problems. The year-to-year rate of inflation doubled between the first half of 1973 and the first half of 1974, the banks' prime interest rate rose to a then-unprecedented 12 per cent and oil was in short supply while its price skyrocketed. Furthermore, increased speculative activity raised prices of many other raw materials, creating temporary shortages.

CHART I
RATIO OF CHANGES IN THE INDEX OF INDUSTRIAL PRODUCTION FOR CONSUMER GOODS TO CHANGES IN REAL RETAIL SALES
(JANUARY = 1.00)

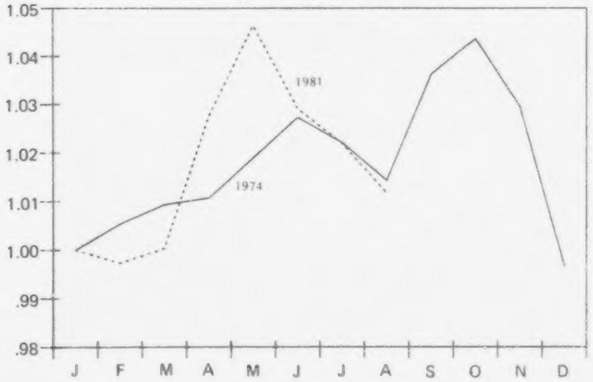
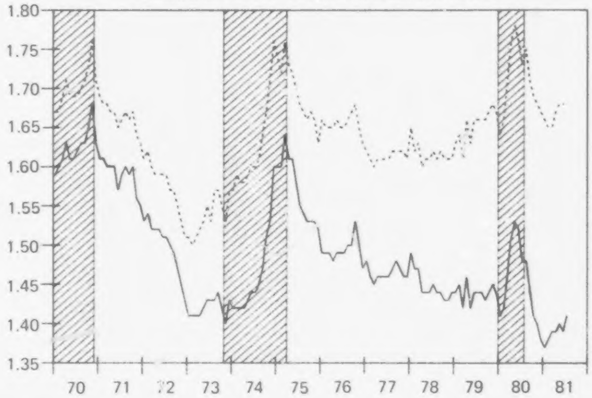


CHART II
INVENTORY-TO-SALES RATIOS
NOMINAL (LINE) VS. 1972 DOLLARS (DOT)



Although today's oil prices have stabilized and the rate of inflation has slowed substantially from last year's levels, high interest rates—especially after factoring out inflation—have dampened growth of consumption and production in most sectors of the economy. However, the economy has resisted a substantial downturn—so far. But with the release of August data and some weekly estimates for early September, it would seem that the pace of activity has begun to drop more sharply.

For example, the month-over-month drop in industrial production in August was the largest in over a year; the number of housing units started in August was the lowest since February, 1975, with the level of single-unit starts the smallest on record; "real" retail sales are lower now than they were in January despite a boost from surging auto sales in August; consumer confidence just declined for the first time in six months; and importantly, inventories have been building up at a faster rate than businessmen had intended.

Déjà Vu

The most important similarity between the 1974 experience and what has been occurring so far this

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year is the disturbing imbalance between the production and consumption of consumer goods (see Chart I). Since last winter, factories have been producing more, but households have not been buying more. In fact, after adjusting for inflation, retail sales declined between January and August, but industrial production rose by more than one per cent. Ideally, any changes in production should correspond to changes in "real" sales so that neither excess inventories nor shortages develop.

In 1974, this imbalance increased slowly but steadily during the first six months of the year. However, in June, manufacturers cut back production and reduced their payrolls. As more and more workers lost their jobs, consumer purchasing power declined, resulting in plummeting retail sales in the fourth quarter of 1974 and, consequently, bulging inventories. This eventually resulted in another round of even steeper production cuts.

Production Begins To Slip . . .

So far this year, the relationship between sales and production has followed the pattern of early 1974. To correct this imbalance, manufacturers began to slow production lines in June and July, resulting in a decline in August of 0.4 per cent, the largest monthly drop since July, 1980. Nevertheless, the

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 9/16/81	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	131.913	− .364	+ 3.452
Loans to Depository Inst.	1.349	− .236	+ .138
Float	3.795	+ 1.327	− 1.271
Total Reserve Bank Credit	145.412	+ .856	+ 5.523
Treasury Deposits with Federal Reserve Banks	2.997	+ .230	− .035
Currency Outside Banks	124.075	+ .295	+ 5.641
Member Bank Reserves:			
Required	39.823	+ .516	− .586
Excess (Deficiency)	.240	− .212	− .095
Total Reserves Held	40.063	+ .304	− .681
Net Borrowed Reserves	.904	− .012	+ .051
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	92.850	+ .281	+ 8.227

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1-B	433.7	+ 3.2‡	+ 5.5‡
M2 (August '81)	1,778.4	+ 8.0	+ 8.9
M3 (August '81)	2,118.9	+ 11.2	+ 11.7
L (June '81)	2,504.3	+ 9.7	+ 11.5

† Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 9/25/81	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	13.80%	14.05%	13.85%
* Federal Agencies	14.65	15.30	15.60
* Project Notes—Taxfree (46% Taxable Equivalent)	16.67	17.04	17.04
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	15.90	16.65	17.25

‡ Finance Company Paper—Prime	
5- 14 days	14.25%
15- 29 days	14.25
30- 59 days	14.50
60- 89 days	14.50
90-179 days	14.50
180-239 days	12.00
240-270 days	12.00

‡* Bankers' Acceptances	
Oct.	14.65%
Nov.	14.90
Dec.	15.20
Jan.	15.30
Feb.	15.30
Mar.	15.50

‡ Industrial Paper—Prime	
30- 89 days	14.50%
90-120 days	15.00

† Federal Funds Effective Rate 14.35%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'81	$ 2,886	$ 2,853	$ 2,565
Gross National Product (1972 Dollars)*	2nd Q'81	$ 1,510	$ 1,516	$ 1,463
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Plant and Equipment Expenditures*	4th Q'81	$332.69(a)	$322.88(a)	$299.58
Private Housing Starts (Thousands of Units)*	Aug '81	937	1,049	1,411
New Construction Expenditures*	Jul '81	$ 235.1	$ 238.7	$ 216.4
Total Business Inventories †	Jul '81	$ 499.5	$ 494.2	$ 466.8
Total Business Sales †	Jul '81	$ 354.6	$ 354.4	$ 315.6

* Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. a-Anticipated.

inflation-adjusted ratio of inventories-to-sales has now risen above the level where it was seven years ago—in late summer of 1974 (see Chart II on first page).

As a consequence, unemployment bounced back up in August to 7.2 per cent of the labor force, from 7.0 per cent in July. It probably increased again in September, since the number of people applying for unemployment insurance rose to a five-month high in August, while the total for the two-week period ending on September 12 was the highest in a year.

The August decline in industrial production was widespread among the major industries, since only business equipment and defense and space equipment posted increases. Following earlier trends, the greatest setbacks were suffered by the automobile and housing sectors and their related industries. Unfortunately, there are indications that declines in these already weak areas will continue. For example, in September, domestic automobile manufacturers expected to produce only 467,356 cars—representing the lowest production level for this month since 1961—despite relatively depleted inventories. This will again impact adversely its many suppliers including tire and rubber manufacturers and steel and copper producers. Even the oil

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (9/9/81)	129,145	– 2,287	+34,008
New York City (9/9/81)	30,767	– 525	+ 8,267
Commercial Paper (9/9/81)	155,990	+ 2,101	+34,239

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Year Ago
Nationwide (9/9/81)	184,081	– 897	+21,687
New York City (9/9/81)	53,702	– 495	+ 5,468

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Year Ago
Nationwide (9/9/81)	451,522	– 888	+46,453
New York City (9/9/81)	108,260	– 306	+15,199

Financial Markets

	Friday 9/25/81	Change Since Week Ago	Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	14.72%	+ .32	+ 3.77
180-Day Bills†	15.70	+ .60	+ 3.90
Longest Bills†	16.11	+ .36	+ 4.21
Recent Issues:			
16s 9/30/83	15.89	– .11	
$15\frac{7}{8}$s 9/30/85 (When Issued)	15.90	NA	
$14\frac{7}{8}$s 8/15/91	15.20	+ .38	
$13\frac{7}{8}$s 5/15/11	15.15	+ .97	
Municipals:			
Bond Buyer–20 Bond Index* (9/24/81)	12.57%	– .22	+ 3.39
Blue List Total ($ Million)	$ 608	+ $ 46	– $ 197
30-Day Visible Supply ($ Million)	$1,432	+ $ 23	– $ 104
Total	$2,040	+ $ 69	– $ 301
Corporates:			
Moody's Aa Composite (9/24/81)	15.95%	+ .23	+ 3.32
30-Day Visible Supply ($ Million)	$7,829	– $705	+ $3,697
Stocks:			
Dow-Jones Averages:			
Industrials	824.01	– 12.18	– 116.09
Transportation	335.48	– 10.03	– 2.05
Utilities	102.21	– 2.03	– 6.60
65 Stocks	320.59	– 6.49	– 26.14
Standard and Poor's 500 Stocks	112.77	– 3.49	– 13.58
N.Y.S.E. Composite Index	64.96	– 2.31	– 8.03
N.Y.S.E. Avg. Daily Vol. for Week (000's)	49,612	+ 7,150	– 5,260

* 46% Taxable equivalent 23.28%.

† Bond equivalent.

International Rates

	Friday 9/25/81	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	15.25%	15.88%
1 month	16.25	16.50
3 month	17.38	17.38
6 month	17.63	17.63
1 year	17.13	17.10
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	15.70%	15.55%
Long Term (7 to 15 yrs.)	15.55	15.40

FOREIGN EXCHANGE SPOT RATES

New York Opening (9/25/81)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02639	37.90
Canada	.8354	1.1971
Denmark	.1387	7.2100
France	.1794	5.5750
Germany	.4297	2.3270
Italy	.0008527	1172.70
Japan	.004366	229.03
Mexico	.03987	25.08
Netherlands	.3865	2.5875
Switzerland	.5065	1.9745
U.K.	1.7858	.5600

industry has reduced production of refined products in late August and early September. After a brief increase early this summer, U.S. refining operations slowed in late August and early September, with capacity utilization dropping under 70 per cent once again.

The near-term outlook for the construction sector is even more dismal. The 10.7 per cent decline in housing starts in August compared with July does not bode well for builders as well as associated industries such as household furnishings, appliances and construction supplies. With mortgage rates now approaching 18 per cent in many areas, housing starts will probably slump even further this month and in the months ahead. This disappointing outlook is underscored by the ongoing decline in the number of building permits issued which generally foretells the course of future construction activity. In August the number of permits fell 5.5 per cent, month-over-month, led by single-family permits which were down seven per cent.

. . . As Consumption Weakens

Industries related to the housing sector have been feeling the impact of slower construction activity for some time. However, in August the jolt was particularly evident. For example, new orders for household durables fell more than 11 per cent as shipments trickled out at a rate 9.6 per cent lower than the month before. Prices of construction supplies have declined in response to lower demand. Plywood prices fell by 10.5 per cent since mid-July while lumber prices slipped a significant 15.5 per cent during the same time period. Similarly, slackening demand for other raw materials has pushed their prices lower. The spot market index of 12 raw industrial materials has now declined for six weeks in a row, falling almost three per cent during this period.

Finally, another sign of a slowing in the pace of economic activity was the August decline in new orders for and shipments of manufacturers durable goods. Following six months of small increases, new orders fell by 2.5 per cent, month-over-month, with the greatest declines reported by primary and fabricated metals producers. Shipments were down for the second consecutive month in August, falling 0.7 per cent compared with July.

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In Hong Kong:
Alexandra House, 27th floor
Hong Kong
Tel: (5) 253101
Telex: 73951 HX

James W. Sweitzer
Vice President
and Manager

Edward Lau
Assistant Vice President

Johnson C. Fu
Assistant Vice President

Paul Au
Assistant Secretary

In New York:
350 Park Avenue
New York, New York 10022
Tel: (212) 350-3201/350-6924
Telex: 232337

John J. Simone
Senior Vice President

Iain A. Duthie
Assistant Vice President

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The Manufacturers Hanover Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

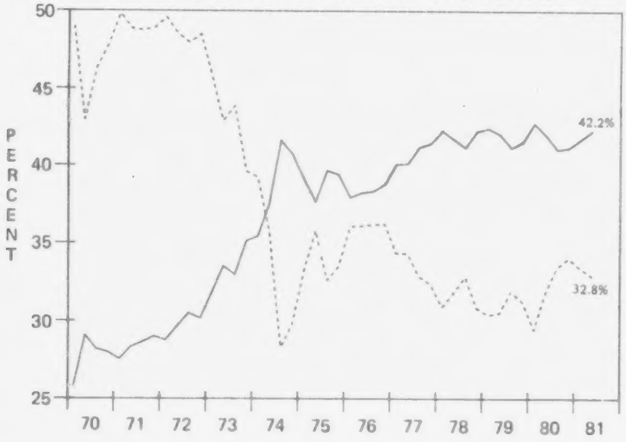
MONDAY, OCTOBER 5, 1981
VOLUME XVIII, NUMBER 40

The Evidence Mounts . . .

The specter of renewed recession once again looms on the horizon. The index of leading economic indicators dropped again in August, the slump in residential construction and new-home sales has worsened, industrial production has turned down and new factory orders have eased. But in the final analysis, trends in consumer spending will be the main determinant of whether or not the economy does, indeed, slip into another recession. In turn, the major determinant of the level of consumer spending is the condition of household balance sheets.

A low rate of financial asset acquisition (stocks and bonds, for example) and/or an erosion of net worth due to inflation may well presage some curtailment of consumer spending. At the same time, a sharp upturn in the level of auto and mortgage debt outstanding at prevailing lofty interest rates would ensure that repayment of these obligations will absorb an increasingly larger proportion of disposable income. Already the strength of household finances has been eroded by high rates of inflation and finance charges which, if accompanied by an upturn in the unemployment rate and slower personal incomes growth later this year, could foreshadow a sizable cutback in consumer spending.

DEPOSIT-TYPE ACCOUNTS AS A PERCENT OF TOTAL HOUSEHOLD FINANCIAL ASSETS (LINE) VS. EQUITY HOLDINGS AS A PERCENT OF TOTAL HOUSEHOLD FINANCIAL ASSETS (DOT)



Such dire predictions would seem exaggerated if one were to look at trends in consumer installment debt alone. With automobile sales sluggish and consumers turning increasingly cautious in response to widespread predictions of imminent recession, households have trimmed their level of installment credit purchases so far this year. Installment debt outstanding increased by less than $1.9 billion per month during the first seven months of 1981—almost 20 per cent below the average monthly increase in installment debt outstanding during the comparable period of the preceding five years. This cautious use of debt, together with buoyant disposable income gains, lowered the key installment debt-to-disposable income ratio to just a shade under 16 per cent in the second quarter of 1981, well below the almost 18 per cent peak reached in the fall of 1979.

At the same time, disposable income growth far outstripped debt repayments, lowering the repayments-to-disposable income ratio from a high of 18.2 per cent in the spring of 1979 to 15.9 per cent currently—its lowest level since late 1976. What is more, household cash flow has received a significant boost from high interest rates. The monthly level of installment debt repayments ($26.8 billion in July) now stands only slightly above the monthly level of household interest income ($25.8 billion in July), the first time ever that interest income has almost completely offset debt repayments.

. . . That Consumer Spending . . .

But trends in installment debt alone do not offer a complete picture of household indebtedness. To this must be added mortgage debt which, at least through the first half of 1981, continued to post sizable gains—albeit at ever higher interest rates. Boosted by still rising home prices and second mortgage borrowings, mortgage debt outstanding rose by $40 billion during the first six months of 1981, not far from the average increase posted during the comparable period of the preceding five years—even though new-home sales fell. Moreover, this debt was contracted at increasingly higher interest rates. They have recently ranged as high as 18-19 per cent, well above the nine to ten per cent average

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which prevailed during most of the 1976-80 period.

Thus, another indicator of household liquidity, the estimated household debt service burden—consisting of interest payments only on outstanding installment and mortgage debt—moved noticeably higher. It now stands at 8.6 per cent of disposable income, a record high level and well above the approximately 5.5 per cent ratio which prevailed prior to the 1973-75 recession. If repayments of mortgage principal were added to the interest repayments, this level would move higher still.

Nor has household financial asset acquisition been stepped up to keep pace with the rising debt service burden. In fact, just the opposite has occurred. Most recently, the escalation of interest rates has sent bond and equity prices plunging, sharply eroding the value of household financial assets. And since changes in the market value of these assets have also influenced spending decisions, it appears likely that more weakness in consumer spending is in the offing. Specifically, the pace of household financial asset acquisition expressed as a percentage of disposable income dropped sharply in the first half of 1981, skidding to less than 14 per cent, its lowest level since 1974. What is more, this ratio undoubtedly slumped even further in the third quarter as a result

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 9/23/81	$ Change Since	
		Week Ago	Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	132.916	+ 1.003	+ 4.035
Loans to Depository Inst.	1.446	+ .097	− .184
Float	3.339	− .482	− 1.023
Total Reserve Bank Credit	146.212	+ .777	+ 6.024
Treasury Deposits with Federal Reserve Banks	3.352	+ .355	+ .226
Currency Outside Banks	124.118	+ .038	+ 6.328
Member Bank Reserves:			
Required	40.391	+ .568	− 1.173
Excess (Deficiency)	.132	− .121	+ .053
Total Reserves Held	40.523	+ .447	− 1.120
Net Borrowed Reserves	1.084	+ .193	− .436
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	91.674	− 1.176	+ 7.686

		% Change Since	
Monetary Aggregates †		Three Months Ago*	Year Ago
M1-B	431.7	+ 3.5‡	+ 5.2‡
M2 (August '81)	1,779.0	+ 8.2	+ 8.9
M3 (August '81)	2,119.5	+ 11.4	+ 11.7
L (June '81)	2,502.7	+ 9.4	+ 11.4

† Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 10/2/81	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	14.35%	14.50%	14.20%
* Federal Agencies	14.60	15.56	15.85
* Project Notes—Taxfree (46% Taxable Equivalent)	15.93	16.67	16.85
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	16.85	17.00	17.65

‡ Finance Company Paper—Prime	
5- 14 days	16.13%
15- 29 days	16.62
30- 59 days	15.50
60- 89 days	15.50
90-179 days	14.75
180-239 days	14.50
240-270 days	14.50

‡* Bankers' Acceptances	
Nov.	15.40%
Dec.	15.60
Jan.	15.80
Feb.	15.80
Mar.	15.70
Apr.	15.60

‡ Industrial Paper—Prime	
30- 89 days	15.00%
90-120 days	15.50

† Federal Funds Effective Rate 16.90%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'81	$ 2,886	$ 2,853	$ 2,565
Gross National Product (1972 Dollars)*	2nd Q'81	$ 1,510	$ 1,516	$ 1,463
Percent Change, Annual Rate	2nd Q'81	− 1.6%	8.6%	− 9.9%
Change in Consumer Prices (all urban consumers)*	Aug '81	9.6%	14.4%	9.6%
Change in Producer Prices*	Aug '81	3.6%	4.8%	14.4%
Civilian Employment (Thousands of Persons) †	Sep '81n	98,270	98,944	97,180
Unemployment as % of Civilian Labor Force †	Sep '81n	7.5%	7.2%	7.4%
Personal Income*	Aug '81	$ 2,446	$ 2,419	$ 2,179
Leading Indicators Composite Index (1967=100) †	Aug '81n	133.8	134.5	130.7
Industrial Production Index (1967=100) †	Aug '81	152.8	153.4	142.2
Net Change in Consumer Installment Credit †	Jul '81	$ 1.95	$ 1.93	−$ 1.20
U.S. Merchandise Trade Balance †	Aug '81n	−$ 4.48	−$ 0.54	−$ 0.63
Plant and Equipment Expenditures*	4th Q'81	$332.69(a)	$322.88(a)	$299.58
Private Housing Starts (Thousands of Units)*	Aug '81	937	1,049	1,411
New Construction Expenditures*	Aug '81n	$ 231.0	$ 234.8	$ 217.9
Total Business Inventories †	Jul '81	$ 499.5	$ 494.2	$ 466.8
Total Business Sales †	Jul '81	$ 354.6	$ 354.4	$ 315.6

* Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. a-Anticipated.

of the approximately $250 billion slide in the value of household equity investments since June.

The total drop in the value of household equity holdings since the beginning of the year now amounts to about $260 billion. While this decline is still well below the enormous $409 billion slide which occurred in 1973 and 1974, prior to and during much of the 1973-75 recession, it is more than twice the $115 billion decline in household equity holdings which occurred prior to the 1970 recession. Although, when expressed as a percentage of disposable income, the most recent slide in equity holdings is still less than the 1970 decline, the adverse impact on investor psychology arises from actual dollar, not percentage, drops.

. . . Will Weaken Further

Despite the slump in bond and stock prices, however, consumer spending has not yet been deterred all that much, at least not yet. Although "real" personal consumption spending contracted at a seasonally adjusted two per cent annual rate in the second quarter of 1981 compared with quarter-earlier levels, most of the drop was due to slumping automobile sales. Excluding autos, real consumer spending rose at an almost two per cent seasonally adjusted annual rate. Two factors may account for

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (9/16/81)	128,250	− 840	+33,135
New York City (9/16/81)	30,923	+ 156	+ 8,640
Commercial Paper (9/16/81)	160,254	+ 4,264	+38,128

Bank Loans

(Millions of Dollars)

Weekly Reporting Large Commercial Banks	Commercial and Industrial Loans Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/16/81)	185,286	+ 1,200	+21,747
New York City (9/16/81)	54,183	+ 481	+ 5,889

	Total Loans Gross Adjusted Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/16/81)	453,043	+ 1,551	+47,978
New York City (9/16/81)	108,362	+ 102	+15,994

Financial Markets

	Friday 10/2/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	15.00%	+ .28	+ 3.23
180-Day Bills†	15.85	+ .15	+ 3.88
Longest Bills†	16.03	− .08	+ 4.05
Recent Issues:			
16s 9/30/83	16.35	+ .46	
$15^{7}/_{8}$s 9/30/85	15.30	− .60	
$14^{7}/_{8}$s 8/15/91	14.47	− .73	
$13^{7}/_{8}$s 5/15/11	13.60	− 1.55	
Municipals:			
Bond Buyer–20 Bond Index* (10/1/81)	12.93%	+ .36	+ 3.71
Blue List Total ($ Million)	$ 736	+ $128	+ $ 48
30-Day Visible Supply ($ Million)	$1,831	+ $399	− $ 217
Total	$2,567	+ $527	$ 169
Corporates:			
Moody's Aa Composite (10/1/81)	16.46%	+ .51	+ 3.50
30-Day Visible Supply ($ Million)	$7,724	− $105	+ $3,824
Stocks:			
Dow-Jones Averages:			
Industrials	860.73	+ 36.72	− 89.95
Transportation	365.44	+ 29.96	+ 20.02
Utilities	102.81	+ .60	− 8.40
65 Stocks	337.22	+ 16.63	− 15.25
Standard and Poor's 500 Stocks	119.36	+ 6.59	− 9.97
N.Y.S.E. Composite Index	68.86	+ 3.90	− 5.89
N.Y.S.E. Avg. Daily Vol. for Week (000's)	49,676	+ 64	+ 3,818

* 46% Taxable equivalent 23.94%.

† Bond equivalent.

International Rates

	Friday 10/2/81	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	16.25%	15.25%
1 month	16.75	16.25
3 month	17.63	17.38
6 month	17.94	17.63
1 year	17.38	17.13
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	15.80%	15.70%
Long Term (7 to 15 yrs.)	15.70	15.55

FOREIGN EXCHANGE SPOT RATES

New York Opening (10/2/81)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02661	37.58
Canada	.8308	1.2036
Denmark	.1367	7.3145
France	.1817	5.5050
Germany	.4361	2.2933
Italy	.0008525	1173.00
Japan	.004337	230.60
Mexico	.03960	25.25
Netherlands	.3922	2.5500
Switzerland	.5164	1.9365
U.K.	1.8303	.5464

this seeming contradiction.

In the case of bonds, the spending decisions of many long-term investors are likely to be little affected by fluctuations in the market value of their bond holdings, as long as the flow of interest income from these securities is uninterrupted. Barring borrower default, these payments continue, irrespective of fluctuations in the market value of the fixed-income portfolio. The downturn in equities prices, in contrast, should have a more immediate impact since stocks are more widely held by the public. But even here the effect may be less severe than in the past. Household equity investments as a percentage of total household financial assets has diminished over time—from almost 50 per cent in early 1970 to approximately 33 per cent during the past year. The growth of deposit-type assets has taken up much of the slack, rising from about 28 per cent of household assets in 1970 to 42 per cent currently. (See chart on first page.)

Although diminished, the value of equities held remains an important component of household net worth. With stock prices in a seeming free-fall, it can not help but be translated into reduced household perceptions of their ability to spend. What is more, the recent flattening in home prices ensures that rising home values will not offset the adverse effects of the downturn in share prices.

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Paul Au
Assistant Secretary

In New York:
350 Park Avenue
New York, New York 10022
Tel: (212) 350-3201/350-6924
Telex: 232337

John J. Simone
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The Manufacturers Hanover
Financial Digest
Weekly Commentary,
Selected Financial Data,
and Business Indicators

FRIDAY, OCTOBER 9, 1981
VOLUME XVIII, NO. 41

The EMS Adjusts . . .

The realignment of several currencies in the European Monetary System (EMS) last week created very little disturbance in the international financial markets. The markets' response was ambivalent; a small decline in the value of the dollar against the EMS currencies was as much due to lower U.S. interest rates as to the new alignment. Further, the realignment had been widely anticipated, the changes in intra-EMS parities involved fewer currencies than expected and the percentage by which the currencies changed was smaller than expected. The German mark and the Dutch guilder were each boosted by 5.5 per cent above their previous central rates in the EMS while the French franc and the Italian lira were each depreciated three per cent against their previous central rate.

The other member currencies in the EMS—the Belgian franc, the Danish krone and the Irish pound did not change. It had been expected that these countries, particularly Belgium, would use this opportunity to adjust their currencies as well. Further, many thought that the German mark would revalue by about ten per cent against the weakest EMS currencies, reflecting the relatively more favorable economic performance of the German economy. For these reasons, another realignment, probably within a year, may well occur once the effects of this "mini-adjustment" can be evaluated.

. . . To Inflation Rate Spreads

Primarily, the readjustment of the intra-EMS exchange rate relationships was made necessary by the wide range of economic performance, particularly inflation rates, among its members. Large variations in either rates of growth or inflation make exchange rate stability impossible to achieve. This was the lesson which the collapse of the Bretton Woods system of fixed exchange rates taught. Then, the exchange rates between major currencies were rigidly fixed. When insuperable pressures developed within the Bretton Woods system, sudden and destabilizing currency adjustments took place, requiring wrenching policy changes. Frequently, the exchange rate movements were large and the change in currency relationships resulted in the dislocation of existing trade and capital flow patterns. In addition, as pressures on a particular currency increased, speculation against that currency was encouraged, leading to costly and ultimately futile defensive measures by central banks. In the 1960s, serious international financial crises became more frequent, heralding the demise of the fixed rate system. Between 1967 and 1973 there were 11 occasions when crises forced a particular nation to suspend foreign exchange transactions temporarily.

Under the present floating rate system, such pressures tend to be diffused by small daily market readjustments. However, the EMS, a system of semi-fixed rates, limits the range of automatic adjustment in response to market forces. At present, there is a wide variation in inflation rates among the EMS members. Inflation in West Germany, for example, is currently running at an annual rate of close to six per cent while France's inflation rate is over 13 per cent and Italy's is about 20 per cent. It is unlikely that these widely divergent inflation rates will narrow in the near future. Therefore, further, possibly more profound, realignments will be necessary. The utility and viability of the EMS itself may be affected.

The Bretton Woods system collapsed just ten years ago when the United States suspended the convertibility of the dollar into gold in August, 1971. This was a tacit admission that it was no longer possible for even the most powerful nation to defend a fixed exchange rate in the face of declining economic performance. Attempts were made to patch up the system, resulting in the short-lived Smithsonian Agreement of pegged exchange rates which expired in the inflationary boom of 1973. Since then, floating rates have prevailed in recognition of the fact that exchange rate stability is inconsistent with divergent economic performance.

No Clear Trend In U.S. Trade

In spite of the strong appreciation of the dollar this year, U.S. exports and imports have remained

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remarkably stable. For the first eight months of this year, the U.S. trade deficit was a seasonally adjusted $26.2 billion (exports, f.a.s./imports, c.i.f.) compared with $27.3 billion for the same period in 1980. At the same time, the dollar has appreciated on a trade-weighted basis by close to 14 per cent. Total exports in August amounted to $19.1 billion, 1.2 per cent above the $18.8 billion registered in January of this year. Imports in August were $24.7 billion, 1.7 per cent above the $24.3 billion January figure. The $5.6 billion August deficit was only slightly above the January deficit of $5.4 billion—scarcely conclusive evidence of a progressive deterioration of the U.S. trade balance.

The appreciation of the dollar has been widely expected to bring in its wake plunging exports as their prices in foreign currency terms rise and skyrocketing imports as their cost falls in dollar terms. So far, these trends are not clearly evident. It is probable that the decline in U.S. exports and rise in imports will be less drastic than the appreciation of the dollar would imply. Because many U.S. export items are capital goods which often have a long lag between order and delivery, the deleterious effect on exports of an appreciating currency has been delayed. In those export categories usually associated with consumer type goods, a monthly decline in the value of exports has been evident. But many U.S. exports are relatively price insensitive—that is, price is not the primary criterion which determines demand for them. Many exports,

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 9/30/81	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	132.017	− .899	+ 1.320
Loans to Depository Inst.	1.446	−0−	− .427
Float	2.727	− .758	− .619
Total Reserve Bank Credit	145.036	− 1.322	+ 3.541
Treasury Deposits with Federal Reserve Banks	3.421	+ .069	− .847
Currency Outside Banks	121.751	− 2 367	+ 4.549
Member Bank Reserves:			
Required	41.009	+ .618	− .875
Excess (Deficiency)	.494	+ .216	+ .144
Total Reserves Held	41.503	+ .834	− .731
Net Borrowed Reserves	.721	− .217	− .761
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	91.462	− .212	+ 7.083

Monetary Aggregates †			% Change Since Three Months Ago*	% Change Since Year Ago
M1-B		429.3	+ 3.1‡	+ 4.7‡
M2	(September '81)	1,786.6	+ 8.5	+ 8.6
M3	(September '81)	2,131.8	+ 10.2	+ 11.4
L	(June '81)	2,502.7	+ 9.4	+ 11.4

† Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 10/9/81	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	14.25%	13.55%	13.25%
* Federal Agencies	14.35	14.65	15.50
* Project Notes—Taxfree (46% Taxable Equivalent)	15.93	16.39	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	15.35	15.75	16.90

‡ Finance Company Paper—Prime	
5- 14 days	14.25%
15- 29 days	14.63
30- 59 days	14.63
60- 89 days	14.63
90-179 days	14.50
180-239 days	14.25
240-270 days	14.25

‡* Bankers' Acceptances	
Nov.	14.55%
Dec.	14.70
Jan.	14.80
Feb.	14.80
Mar.	14.75
Apr.	14.65

‡ Industrial Paper—Prime	
30- 89 days	14.38%
90-120 days	14.75

† Federal Funds Effective Rate 14.70%

‡ Discount basis.

* Subject to availability.

† Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'81	$ 2,886	$ 2,853	$ 2,565
Gross National Product (1972 Dollars)*	2nd Q'81	$ 1,510	$ 1,516	$ 1,463
Percent Change, Annual Rate	2nd Q'81	− 1.6%	8.6%	− 9.9%
Change in Consumer Prices (all urban consumers)*	Aug '81	9.6%	14.4%	9.6%
Change in Producer Prices*	Sept '81n	2.4%	3.6%	3.6%
Civilian Employment (Thousands of Persons) †	Sept '81	98,270	98,944	97,180
Unemployment as % of Civilian Labor Force †	Sept '81	7.5%	7.2%	7.4%
Personal Income*	Aug '81	$ 2,446	$ 2,419	$ 2,179
Leading Indicators Composite Index (1967=100) †	Aug '81	133.8	134.5	130.7
Industrial Production Index (1967=100) †	Aug '81	152.8	153.4	142.2
Net Change in Consumer Installment Credit †	Aug '81n	$ 2.86	$ 1.95	$ 0.49
U.S. Merchandise Trade Balance †	Aug '81	−$ 4.48	−$ 0.54	−$ 0.63
Plant and Equipment Expenditures*	4th Q'81	$332.69(a)	$322.88(a)	$299.58
Private Housing Starts (Thousands of Units)*	Aug '81	937	1,049	1,411
New Construction Expenditures*	Aug '81	$ 231.0	$ 234.8	$ 217.9
Total Business Inventories †	Jul '81	$ 499.5	$ 494.2	$ 466.8
Total Business Sales †	Jul '81	$ 354.6	$ 354.4	$ 315.6

* Seasonally adjusted annual rate.

† Seasonally adjusted.

n - Newly reported figure.

a - Anticipated.

particularly the capital items, are unique and create their own market. Other exports (wheat, for example) compete on world markets with other sources of supply and are sold at a common world price.

A trend toward increased imports is easier to discern. Although the value of August imports is just slightly above the January level, every major import category showed a monthly increase in August over July. In addition to oil imports, manufactured goods and machinery and transport equipment also rose sharply in recent months. But slow growth in the U.S. economy and high interest rates will discourage too rapid growth of imports. Further, import prices have not fallen commensurate with the appreciation of the dollar. Imports have not become significantly cheaper in most cases.

But, there is real risk in assigning too much importance to monthly changes in trade figures. These figures have fluctuated erratically from month to month since the beginning of the year. For example, imports of mineral fuels and lubricants jumped 21.1 per cent from July to August, yet the value of the August fuel imports was five per cent below the June figure.

Before year-end however, the effects of the strong dollar on U.S. foreign trade will become apparent leading to a trade deficit slightly larger than last year's $36.4 billion.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (9/23/81)	130,026	+ 1,772	+32,897
New York City (9/23/81)	31,170	+ 247	+ 8,473
Commercial Paper (9/23/81)	163,830	+ 3,576	+42,270

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/23/81)	185,020	− 164	+21,630
New York City (9/23/81)	53,878	− 305	+ 5,952

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/23/81)	450,890	− 2,041	+46,028
New York City (9/23/81)	106,945	− 1,417	+14,973

Financial Markets

	Friday 10/9/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	13.70%	− 1.30	+ 2.00
180-Day Bills†	14.62	− 1.23	+ 2.52
Longest Bills†	14.85	− 1.18	+ 1.90
Recent Issues:			
16s 9/30/83	15.00	− 1.35	
$15\frac{7}{8}$s 9/30/85	15.02	− .28	
$14\frac{7}{8}$s 8/15/91	14.60	+ .13	
$13\frac{7}{8}$s 5/15/11	14.11	+ .51	
Municipals:			
Bond Buyer–20 Bond Index* (10/8/81)	12.73%	− .20	+ 3.72
Blue List Total ($ Million)	$ 804	+ $ 68	+ $ 198
30-Day Visible Supply ($ Million)	$1,898	+ $ 67	− $ 724
Total	$2,702	+ $135	− $ 526
Corporates:			
Moody's Aa Composite (10/8/81)	15.72%	− .74	+ 3.15
30-Day Visible Supply ($ Million)	$7,629	− $ 95	+ $3,573
Stocks:			
Dow-Jones Averages:			
Industrials	873.00	+ 12.27	− 77.68
Transportation	371.28	+ 5.84	+ 21.20
Utilities	104.16	+ 1.35	− 8.95
65 Stocks	342.15	+ 4.93	− 12.68
Standard and Poor's 500 Stocks	121.45	+ 2.09	− 8.84
N.Y.S.E. Composite Index	70.32	+ 1.46	− 5.02
N.Y.S.E. Avg. Daily Vol. for Week (000's)	48,862	− 814	+ 1,806

* 46% Taxable equivalent 23.57%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 10/9/81	Week Ago
Overnight	14.88%	16.25%
1 month	15.31	16.75
3 month	16.25	17.63
6 month	16.38	17.94
1 year	16.25	17.38
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	15.50%	15.80%
Long Term (7 to 15 yrs.)	15.50	15.70

FOREIGN EXCHANGE SPOT RATES

New York Opening (10/9/81)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02726	36.68
Canada	.8354	1.1971
Denmark	.1418	7.0525
France	.1824	5.4825
Germany	.4574	2.1865
Italy	.0008572	1166.50
Japan	.004407	226.90
Mexico	.03946	25.34
Netherlands	.4136	2.4180
Switzerland	.5435	1.8400
U.K.	1.9043	.5251

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The Manufacturers Hanover Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

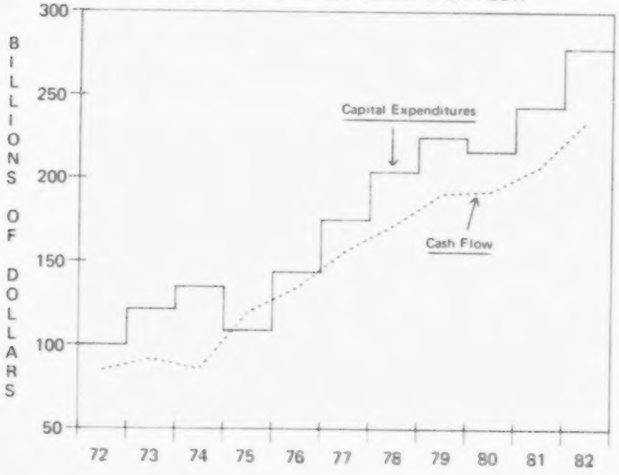
MONDAY, OCTOBER 19, 1981
VOLUME XVIII, NUMBER 42

Increased Business Spending . . .

With the threat of another sharp rise in Federal government borrowing requirements later this year and in early 1982 overhanging the financial markets, what are the prospects that reduced credit demands in other sectors will be able to forestall a renewed interest rate spiral? One area in which credit requirements *cannot* be expected to abate in 1982 is U.S. nonfinancial corporations. Their demands for funds may remain strong next year—sluggish economy notwithstanding—because of the severe deterioration in corporate liquidity positions that has occurred in recent years.

One of the major factors accounting for the erosion of corporate liquidity has been the sluggish growth of corporate earnings. Hard-hit by lackluster "real" final sales, escalating labor, energy and financing costs as well as slumping productivity performance, many U.S. corporations have experienced only modest profits growth at best, and sharp losses at worst. This trend was once again highlighted in the second quarter of this year when profits from current production plunged almost ten per cent quarter-over-quarter—the third steepest slide in 22 years. Ominously, the profits weakness was not only confined to the long-suffering housing, auto and airline industries but extended into such previously prosperous areas as high technology, as demand for semiconductors and business equipment waned. Thus, with profitability diminished, the gap between business cash flow and the level of capital spending has widened in recent months. (See Chart I.)

CHART I
NONFINANCIAL CORPORATIONS:
CAPITAL EXPENDITURES VS. CASH FLOW



SUMMARY OF BUSINESS FINANCING REQUIREMENTS
($ Billions)

	1977	1978	1979	1980	1981(e)	1982(p)
Capital Expenditures	174.9	203.6	224.7	216.1	243.4	278.2
Less: Internal Cash Flow	156.2	171.9	190.6	192.2	206.7	235.9
Equals: Operating Requirements	18.7	31.7	34.0	23.9	36.6	42.4
Plus: Change in Financial Assets	22.2	32.1	45.1	37.8	34.3	35.0
Equals: External Financing Requirements	40.9	63.8	79.1	61.7	70.9	77.4

e = estimated p = projected

To help bridge the financing gap, corporations expanded their level of external borrowings. In particular, the demand for funds has been concentrated in the short-term area due to the lofty yields and unstable conditions prevailing in the bond markets. Commercial and industrial loans outstanding at large weekly reporting banks have increased by $60 billion since mid-1978, when short-term credit demands began to balloon, while outstanding nonfinancial company commercial paper, an alternative to bank loans for some companies, has soared by more than $30 billion during the same period. Thus, with short-term credit outstanding rising by $90 billion in three years and short-term interest rates spiking to record high levels, it is hardly surprising that many key indicators of corporate financial health have deteriorated—many to historic depths.

. . . Plus Strained Business Liquidity . . .

One measure of liquidity, the ratio of short-term liabilities to total liabilities, jumped from less than 34 per cent in 1976 to almost 40 per cent currently,

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indicative of the difficulties facing corporations in securing long-term finance. What is more, with the cost of both short- and long-term finance ratcheting ever higher, the proportion of cash flow required to service existing debt has also risen correspondingly Specifically, the percentage of gross internal funds required to service outstanding debt has risen from 26 per cent in early 1977 to almost 45 per cent now—perhaps one reason why "real" investment spending in 1981 stood not far from the level first reached in 1979. (See Chart II, page 3.)

Nor is the weakening of corporate finances likely to be reversed quickly Corporate profitability will remain squeezed by the twin nemeses of weak productivity growth and escalating costs, even if the economy does rebound in 1982. What is more, with investment incentives recently enhanced, it is quite likely that capital spending will outpace the growth of internally generated funds in coming years, despite liberalized depreciation schedules. This, in turn, will ensure that corporate borrowing requirements remain robust.

. . . Equals Hefty Corporate Borrowings

As indicated in the table on page 1, although corporate cash flow is projected to rise from $207 billion in 1981 to almost $236 billion in 1982 (stimulated largely by liberalized depreciation schedules), it will cover the smallest percentage of capital expenditures since 1978. As a result, business needs for working capital will rise further, reaching their highest level

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 10/7/81	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	130.544	− 1.473	+ .540
Loans to Depository Inst.	1.146	− .302	− .103
Float	4.057	+ 1.299	+ .910
Total Reserve Bank Credit	144.902	− .167	+ 4.859
Treasury Deposits with Federal Reserve Banks	3.545	+ .124	+ .243
Currency Outside Banks	122.464	+ .712	+ 4.578
Member Bank Reserves:			
Required	40.105	− .904	− .675
Excess (Deficiency)	.155	− .369	− .197
Total Reserves Held	40.260	− 1.273	− .872
Net Borrowed Reserves	.835	+ .144	− .013
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	90.842	− .620	+ 6.277

			% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates †				
M1-B		435.1	+ 2.3‡	+ 4.6‡
M2	(September '81)	1,786.6	+ 8.5	+ 8.6
M3	(September '81)	2,131.8	+ 10.2	+ 11.4
L	(June '81)	2,502.7	+ 9.4	+ 11.4

† Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 10/16/81	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	13.20%	13.35%	13.20%
* Federal Agencies	14.06	14.39	15.05
* Project Notes—Taxfree (46% Taxable Equivalent)	15.28	16.20	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	15.05	15.40	15.90

‡ Finance Company Paper—Prime	
5- 14 days	14.63%
15- 29 days	14.63
30- 59 days	13.75
60- 89 days	13.75
90-179 days	13.75
180-239 days	13.75
240-270 days	13.75

‡* Bankers' Acceptances	
Nov.	14.45%
Dec.	14.45
Jan.	14.45
Feb.	14.45
Mar.	14.45
Apr.	14.30

‡ Industrial Paper—Prime	
30- 89 days	14.50%
90-120 days	14.63

† Federal Funds Effective Rate 15.05%

‡ Discount basis. * Subject to availability. † Estimated.

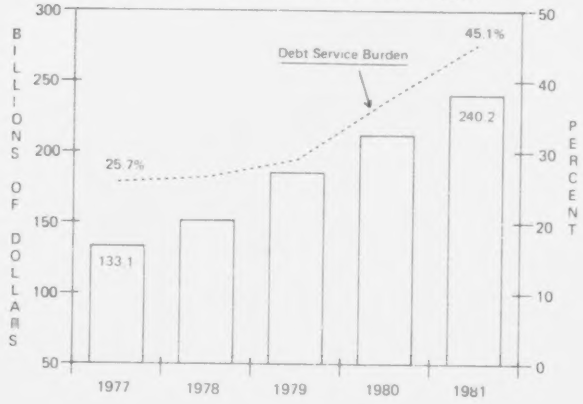
Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'81	$ 2,886	$ 2,853	$ 2,565
Gross National Product (1972 Dollars)*	2nd Q'81	$ 1,510	$ 1,516	$ 1,463
Percent Change, Annual Rate	2nd Q'81	− 1.6%	8.6%	− 9.9%
Change in Consumer Prices (all urban consumers)*	Aug '81	9.6%	14.4%	9.6%
Change in Producer Prices*	Sept '81	2.4%	3.6%	3.6%
Civilian Employment (Thousands of Persons) †	Sept '81	98,270	98,944	97,180
Unemployment as % of Civilian Labor Force †	Sept '81	7.5%	7.2%	7.4%
Personal Income*	Aug '81	$ 2,446	$ 2,419	$ 2,179
Leading Indicators Composite Index (1967=100) †	Aug '81	133.8	134.5	130.7
Industrial Production Index (1967=100) †	Sept '81n	152.1	153.3	144.4
Net Change in Consumer Installment Credit †	Aug '81	$ 2.86	$ 1.95	$ 0.49
U.S. Merchandise Trade Balance †	Aug '81	−$ 4.48	−$ 0.54	$ 0.63
Plant and Equipment Expenditures*	4th Q'81	$332.69(a)	$322.88(a)	$299.58
Private Housing Starts (Thousands of Units)*	Aug '81	937	1,049	1,411
New Construction Expenditures*	Aug '81	$ 231.0	$ 234.8	$ 217.9
Total Business Inventories †	Aug '81n	$ 501.7	$ 498.1	$ 468.9
Total Business Sales †	Aug '81n	$ 350.8	$ 354.5	$ 317.9

* Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. a-Anticipated.

CHART II
C&I LOANS PLUS COMMERCIAL PAPER OUTSTANDING ($ BILLIONS) VS. CORPORATE DEBT SERVICE BURDEN (PERCENT)



since 1974. When the need for financial asset acquisition is taken into account, total external financing requirements will amount to more than $77 billion, about 10 per cent higher than 1981 and a sizable 25 per cent above 1980. If the bond markets are still unable to reestablish a firmer footing, short-term sources of funds, particularly commercial banks, will have to satisfy a large portion of business financing needs.

On the other hand, it should be anticipated that corporations will jump into the long-term markets to secure needed funds at the first sign of lower bond rates. The implication: Continued pressure on interest rates is likely unless Washington curtails its borrowing—or the economy falls out of bed. ■

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (9/30/81)	130,897	+ 871	+33,524
New York City (9/30/81)	31,853	+ 683	+ 8,721
Commercial Paper (9/30/81)	161,740	− 2,090	+39,559

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/30/81)	188,100	+ 3,140	+21,516
New York City (9/30/81)	54,658	+ 778	+ 5,386

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/30/81)	460,498	+ 9,721	+48,534
New York City (9/30/81)	112,473	+ 5,598	+17,927

Financial Markets

	Friday 10/16/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	13.90%	+ .20	+ 2.70
180-Day Bills†	14.65	+ .03	+ 3.35
Longest Bills†	14.90	+ .05	+ 3.89
Recent Issues:			
16s 9/30/83	15.26	+ .26	
15$^{7}/_{8}$s 9/30/85	15.02	−0−	
14$^{7}/_{8}$s 8/15/91	14.70	+ .10	
13$^{7}/_{8}$s 5/15/11	14.27	+ .16	
Municipals:			
Bond Buyer—20 Bond Index* (10/15/81)	12.53%	− .20	+ 3.72
Blue List Total ($ Million)	$ 697	− $117	+ $ 23
30-Day Visible Supply ($ Million)	$1,456	− $442	− $ 889
Total	$2,153	− $549	− $ 866
Corporates:			
Moody's Aa Composite (10/15/81)	15.51%	− .21	+ 3.06
30-Day Visible Supply ($ Million)	$8,449	+ $820	+ $5,113
Stocks:			
Dow-Jones Averages:			
Industrials	851.69	− 21.31	− 104.37
Transportation	363.71	− 7.57	+ 7.39
Utilities	103.08	− 1.08	− 9.85
65 Stocks	335.00	− 7.15	− 22.79
Standard and Poor's 500 Stocks	119.19	− 2.26	− 12.33
N.Y.S.E. Composite Index	69.13	− 1.19	− 6.79
N.Y.S.E. Avg. Daily Vol. for Week (000's)	38,912	− 9,950	− 8,716

* 46% Taxable equivalent 23.20%.

† Bond equivalent.

International Rates

	Friday 10/16/81	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	14.75%	14.88%
1 month	15.50	15.31
3 month	16.19	16.25
6 month	16.44	16.38
1 year	16.38	16.25
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	15.45%	15.50%
Long Term (7 to 15 yrs.)	15.50	15.50

FOREIGN EXCHANGE SPOT RATES

New York Opening (10/16/81)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02668	37.48
Canada	.8313	1.2029
Denmark	.1393	7.1785
France	.1784	5.6050
Germany	.4470	2.2370
Italy	.0008402	1190.10
Japan	.004327	231.10
Mexico	.03940	25.38
Netherlands	.4049	2.4700
Switzerland	.5333	1.8750
U.K.	1.8363	.5446

The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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MONDAY, OCTOBER 26, 1981
VOLUME XVIII, NUMBER 43

It's A Two-Quarter Drop . . .

For the first time since the 1973-75 recession, the gross national product has declined for two quarters in a row. After falling at an annual rate of 1.6 per cent in the second quarter, the inflation-adjusted output of the nation's goods and services contracted at a seasonally adjusted annual rate of 0.6 per cent during the third. Although this decrease seems relatively small, it is more ominous than it looks. The reason is that most of the overall decline was accounted for by a drop in "real" final sales, while inventories continued to accumulate at a hefty pace.

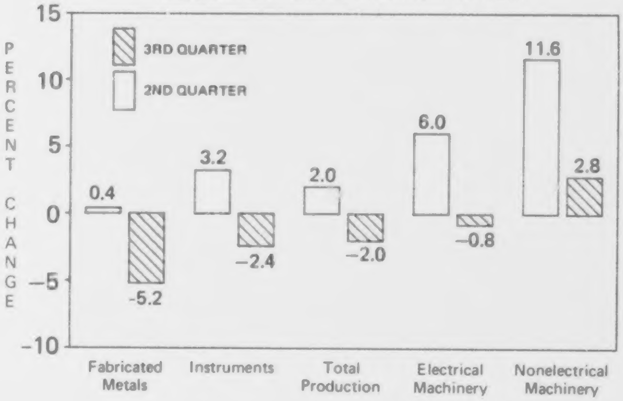
Inflation-adjusted sales by businesses slipped last quarter at a seasonally adjusted $1.7 billion annual rate—nearly 80 per cent of the overall GNP decline—a much faster rate than industries were able to trim production. As a result, inventories continued to pile up, increasing by $10.3 billion in the third quarter, following a rise of $10.8 billion in the second. This was the largest two-quarter increase in over two years, and plainly does not augur well for the economy in the current quarter. If final sales do not pick up substantially in the very near future, many manufacturers will be forced to reduce production further, in an attempt to eliminate excess stocks now in their warehouses.

. . . With Another Likely

Unfortunately, a significant pickup in final sales may be long in coming. Real retail sales have been stagnant for the past nine months and their volume is currently lower than it was last January. What is more, by the end of the last quarter, consumers became even less optimistic about the economy than they were earlier and that usually indicates that their spending will tighten even more.

The Consumer Confidence Index measured by the Conference Board dropped by ten points in September and the Buying Plans Index indicates that within the next six months consumers intend to buy fewer automobiles, homes, major appliances and carpeting. However, should manufacturers cut production and reduce their payrolls even further in the current quarter, decreasing consumer job prospects, consumer spirits could sink even lower, thus dampening purchases during the highly important Christmas selling season.

PRODUCTION OF SELECTED INDUSTRIES:
PERCENT CHANGE IN SECOND AND THIRD QUARTER 1981
(SEASONALLY ADJUSTED ANNUAL RATES)



Industrial production fell a seasonally adjusted 0.8 per cent in September, following a 0.3 per cent decline in August. This was the sharpest drop since the 1.7 per cent decline in June, 1980, when the country was just coming out of a steep power dive. The weakness was limited not just to housing and automobiles, but was widespread among industries, and particularly noticeable in durable manufactured goods. Among the major categories, only defense and space equipment-related industries posted increases; the rest retreated.

For example, production of primary metals fell by 4.3 per cent in September, fabricated metals by 1.2 per cent, nonelectrical machinery by 0.7 per cent and electrical machinery output dropped by 1.2 per cent. Production of consumer goods decreased by 0.3 per cent in September, continuing the decline of the preceding three months, while business equipment showed its first drop since February. Overall, in many major industries, production schedules slowed considerably during the July-September quarter from the April-June period, some posting substantial declines (see chart).

The latest survey of purchasing managers of major U.S. corporations suggests that production levels

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350 Park Avenue, New York, NY 10022

will be reduced again in October. In their September report the purchasing agents disclosed that new orders are coming in at a slower pace for some companies and declining for others, inventories are mounting and an increasing number reported a slide in production schedules.

Unemployment May Be Heading Higher

September's rise in the jobless rate to 7.5 per cent of the labor force, from 7.2 per cent in August and seven per cent in July is also worse than it looks. It reflected the second consecutive monthly decline in total nonagricultural employment, which resulted in a slowing in the growth in wages and salaries. During September, total employment, calculated from the monthly survey of households, declined by 675,000 workers—which, with one exception, is the largest one-month drop in 13½ years.

Presaging further weakness in the employment situation was the September drop in the average workweek of production workers. Traditionally, businessmen first cut down on overtime and the number of hours worked per week, before actually laying off workers. This trend was particularly evident in manufacturing, where the average workweek was down by 2.2 per cent and overtime hours were off by almost 15 per cent. Because of the deterioration in the employment situation, monthly growth in personal incomes slowed to 0.8 per cent in September. It would have been even smaller

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 10/14/81	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & R.Ps	131.984	+ 1.440	+ 1.004
Loans to Depository Inst.	1.110	− .036	− .001
Float	2.795	− 1.324	− .553
Total Reserve Bank Credit	145.062	+ .098	+ 3.863
Treasury Deposits with Federal Reserve Banks	2.957	− .588	− .349
Currency Outside Banks	123.783	+ 1.319	+ 4.831
Member Bank Reserves:			
Required	39.742	− .363	− 1.211
Excess (Deficiency)	.102	− .115	− .133
Total Reserves Held	39.844	− .478	− 1.344
Net Borrowed Reserves	.850	+ .077	+ .035
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	91.163	+ .321	+ 4.479

		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates †			
M1-B	433.4	+ 2.1‡	+ 4.3‡
M2 (September '81)	1,786.7	+ 8.6	+ 8.6
M3 (September '81)	2,132.1	+ 10.2	+ 11.5
L (June '81)	2,502.7	+ 9.4	+ 11.4

† Seasonally adjusted.

* Seasonally adjusted annual rate.

‡ Four-week moving average.

New York Money Market

Offering Rates 10/23/81	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	13.05%	13.65%	13.45%
* Federal Agencies	14.00	14.60	15.20
* Project Notes—Taxfree (46% Taxable Equivalent)	15.28	16.20	NA
Negotiable Time CDs Manufacturers Hanover		Rates By Arrangement	
* Secondary Market—Prime	15.30	15.60	16.15

‡ Finance Company Paper—Prime	
5- 14 days	15.00%
15- 29 days	15.00
30- 59 days	14.88
60- 89 days	14.63
90-179 days	14.00
180-239 days	14.00
240-270 days	13.75

‡* Bankers' Acceptances	
Nov.	14.85%
Dec.	14.85
Jan.	14.85
Feb.	14.80
Mar.	14.80
Apr.	14.50

‡ Industrial Paper—Prime	
30- 89 days	14.75%
90-120 days	14.80

† Federal Funds Effective Rate 14.90%

‡ Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'81n	$ 2,947	$ 2,886	$ 2,637
Gross National Product (1972 Dollars)*	3rd Q'81n	$ 1,508	$ 1,510	$ 1,472
Percent Change, Annual Rate	3rd Q'81n	− 0.6%	− 1.6%	2.4%
Change in Consumer Prices (all urban consumers)*	Sept '81n	14.4%	9.6%	12.0%
Change in Producer Prices*	Sept '81	2.4%	3.6%	3.6%
Civilian Employment (Thousands of Persons) †	Sept '81	98,270	98,944	97,180
Unemployment as % of Civilian Labor Force †	Sept '81	7.5%	7.2%	7.4%
Personal Income*	Sept '81n	$ 2,461	$ 2,441	$ 2,206
Leading Indicators Composite Index (1967=100) †	Aug '81	133.3	134.5	130.7
Industrial Production Index (1967=100) †	Sept '81	152.1	153.3	144.4
Net Change in Consumer Installment Credit †	Aug '81	$ 2.86	$ 1.95	$ 0.49
U.S. Merchandise Trade Balance †	Aug '81	−$ 4.48	−$ 0.54	−$ 0.63
Plant and Equipment Expenditures*	4th Q'81	$332.69(a)	$322.88(a)	$299.58
Private Housing Starts (Thousands of Units)*	Sept '81n	918	934	1,482
New Construction Expenditures*	Aug '81	$ 231.0	$ 234.8	$ 217.9
Total Business Inventories †	Aug '81	$ 501.7	$ 498.1	$ 468.9
Total Business Sales †	Aug '81	$ 350.8	$ 354.5	$ 317.9

* Seasonally adjusted annual rate. † Seasonally adjusted. n–Newly reported figure.

except for a $7 billion jump in interest income, which accounted for almost one-half of the increase.

Although retail sales expanded last month by 0.4 per cent, almost all of the gain was due to rising prices. Nevertheless, about one-half of the increase reflected the relatively strong performance of automobile dealers, as sales increased temporarily in response to various rebate programs and interest rate subsidies.

Finally, the number of housing units started in September fell again, to a seasonally adjusted annual rate of 918,000 units. This is the lowest rate recorded since February, 1975, and although it represents only a slight decline from the August rate, housing starts are currently running 38 per cent below the year-earlier level. In addition, reflecting the depressed condition of the housing market earlier this year, the number of housing units completed slipped by eight per cent in August compared with July levels.

Both of these developments have had, and will continue to have, serious repercussions on many housing-related industries. The decline in construction has already led to a sharp decline in demand for various materials including lumber, steel, copper and other building supplies, while the drop in the number of finished homes has had an adverse impact on such "downstream" industries as home furnishings and home appliances.

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (10/7/81)	132,654	+ 1,715	+35,215
New York City (10/7/81)	32,428	+ 575	+ 9,311
Commercial Paper (10/7/81)	163,186	+ 1,470	+39,452

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/7/81)	188,147	+ 114	+22,226
New York City (10/7/81)	54,872	+ 214	+ 6,056

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/7/81)	460,655	+ 198	+50,219
New York City (10/7/81)	109,879	− 2,594	+16,131

Financial Markets

	Friday 10/23/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	13.75%	− .15	+ 2.00
180-Day Bills†	14.77	+ .12	+ 3.02
Longest Bills†	15.08	+ .18	+ 3.62
Recent Issues:			
$15\frac{1}{2}$s 10/31/83 (When Issued)	15.26	NA	
$15\frac{7}{8}$s 9/30/85	15.32	+ .30	
$14\frac{7}{8}$s 8/15/91	15.36	+ .66	
$13\frac{7}{8}$s 5/15/11	14.76	+ .49	
Municipals:			
Bond Buyer–20 Bond Index* (10/22/81)	12.99%	+ .46	+ 3.93
Blue List Total ($ Million)	$ 793	+ $ 96	− $ 146
30-Day Visible Supply ($ Million)	$2,195	+ $739	+ $ 485
Total	$2,988	+ $835	+ $ 339
Corporates:			
Moody's Aa Composite (10/22/81)	15.84%	+ .33	+ 3.17
30-Day Visible Supply ($ Million)	$8,299	− $150	+ $4,619
Stocks:			
Dow-Jones Averages:			
Industrials	837.99	− 13.70	− 105.61
Transportation	367.16	+ 3.45	− 6.31
Utilities	103.19	+ .11	− 9.55
65 Stocks	333.26	− 1.74	− 27.31
Standard and Poor's 500 Stocks	118.60	− .59	− 11.25
N.Y.S.E. Composite Index	68.83	− .30	− 6.07
N.Y.S.E. Avg. Daily Vol. for Week (000's)	44,928	+ 6,016	− 194

* 46% Taxable equivalent 24.06%.

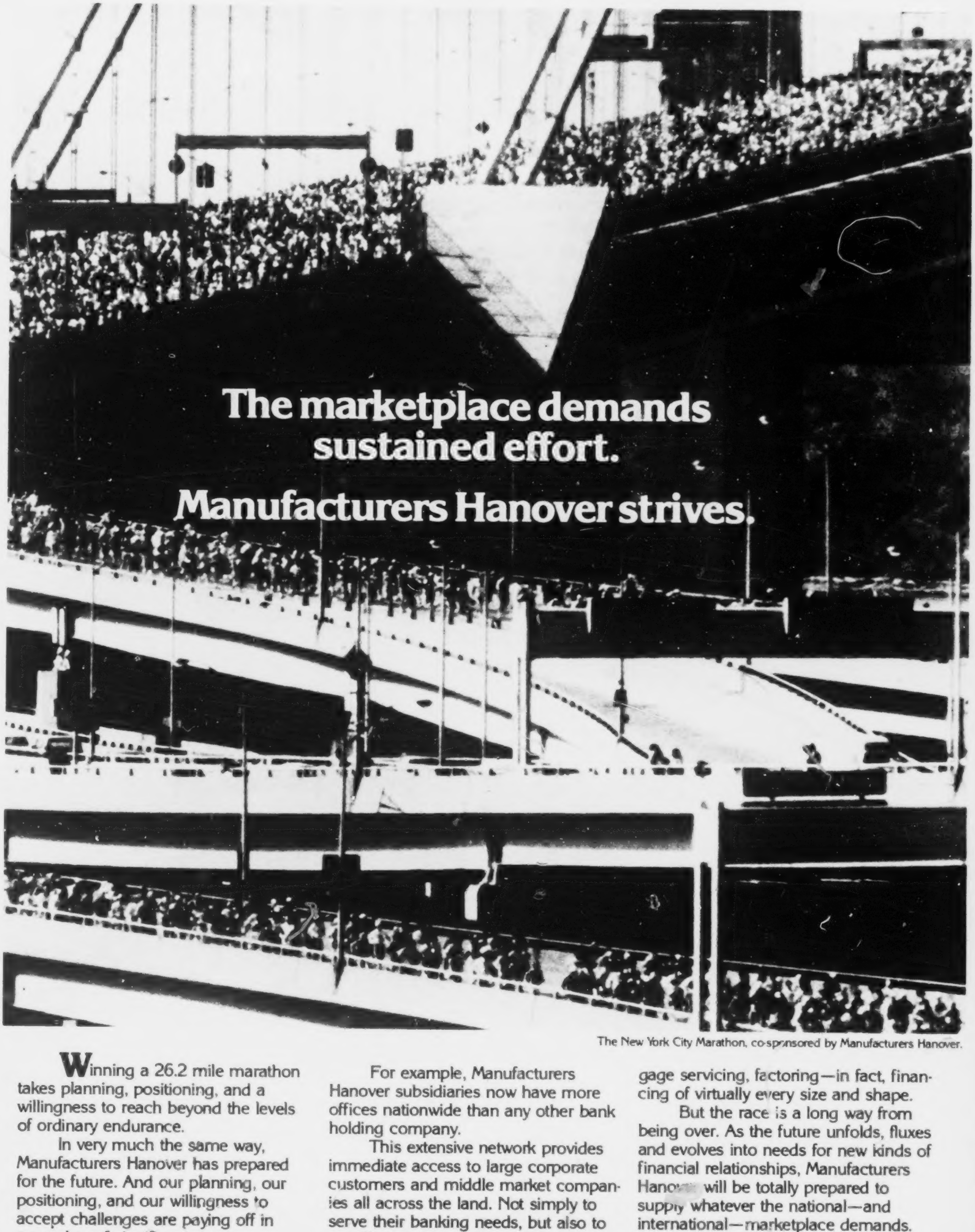
† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 10/23/81	Week Ago
Overnight	15.13%	14.75%
1 month	15.63	15.50
3 month	16.31	16.19
6 month	16.56	16.44
1 year	16.50	16.38
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	15.55%	15.45%
Long Term (7 to 15 yrs.)	15.55	15.50

FOREIGN EXCHANGE SPOT RATES

New York Opening (10/23/81)	**U.S. $ Equivalent**	**Currency Per U.S. $**
Belgium	.02627	38.06
Canada	.8301	1.2047
Denmark	.1371	7.2934
France	.1750	5.7145
Germany	.4392	2.2768
Italy	.0008298	1205.00
Japan	.004286	233.33
Mexico	.03937	25.40
Netherlands	.3982	2.5110
Switzerland	.5270	1.8975
U.K.	1.8190	.5498



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Manufacturers Hanover strives.

The New York City Marathon, co-sponsored by Manufacturers Hanover.

Winning a 26.2 mile marathon takes planning, positioning, and a willingness to reach beyond the levels of ordinary endurance.

In very much the same way, Manufacturers Hanover has prepared for the future. And our planning, our positioning, and our willingness to accept challenges are paying off in a number of significant ways.

For example, Manufacturers Hanover subsidiaries now have more offices nationwide than any other bank holding company.

This extensive network provides immediate access to large corporate customers and middle market companies all across the land. Not simply to serve their banking needs, but also to provide equipment financing, mortgage servicing, factoring—in fact, financing of virtually every size and shape.

But the race is a long way from being over. As the future unfolds, fluxes and evolves into needs for new kinds of financial relationships, Manufacturers Hanover will be totally prepared to supply whatever the national—and international—marketplace demands. Consider the source.

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